# Investing in the Future

GFH's strategy of dynamic diversification is achieving more than simply increasing shareholder value. We're bringing joy to families through our investments in entertainment and technology. We're providing peace of mind through our health and education platforms. We're also growing economies and helping the communities we serve. This is how we invest in the future. This is how we succeed. **Annual Report 2018.**

gfh

His Royal Highness
**Prince Khalifa bin Salman Al Khalifa**
The Prime Minister of the
Kingdom of Bahrain

His Majesty
**King Hamad bin Isa Al Khalifa**
The King of the
Kingdom of Bahrain

His Royal Highness
**Prince Salman bin Hamad Al Khalifa**
The Crown Prince, First Deputy Prime
Minister & Deputy Supreme Commander
Kingdom of Bahrain

# 2018

## Key Market Platforms

Our growth platforms initiated over the past 12 months have been focused to create core platforms in Asset Management, Real Estate, Education, Healthcare and Technology.

## Over 7 Billion Dollar Portfolio

Our growth in the last 12 months has been due to our investments in our business lines – Real Estate, Investment Banking, Treasury & Direct Investments and Commercial Banking.

# Our Vision

To discover, innovate and realise value potential.

# Our Values

We find the world a curious place; its challenges and opportunities entertain our minds. Our rich experience is balanced with a restless inquisitiveness that drives us to find and innovate unique opportunities.

We believe in being open, transparent and straightforward in every aspect of our business. We gain trust by providing reliable information about the things which affect our business's performance.

Our deepest commitment is to realising our ambition. A natural perseverance is the foundation on which we have grown. We focus deeply into the detail, ensuring we get extraordinary results. Our success is the direct result of our tenacity.

**An over view of our business.**
GFH is a leading and dynamic financial group in the GCC region, with a diversified offering and pioneering track record. Headquartered in Bahrain's Financial Harbour, GFH is listed on three stock exchanges in the GCC, including the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market (DFM), where it is one of the most liquid and actively traded stocks. GFH's innovative approach to Islamic investment banking services has been recognised on the global stage, underscoring its strong and consistent ability to identify, successfully bring to market and capitalise on a wide range of solid investment opportunities in some of the world's most dynamic markets and sectors. Since the Group's inception in 1999, GFH has raised over US$7.4 billion in assets and funds under management from its strong client base in four main activities including Wealth Management, Real Estate Development, Commercial Banking and Asset Management. GFH's operations are principally focused across the GCC, North Africa and India, along with strategic investments in the U.S. and U.K.

# 2018 - 2019

2018, 12 months characterised by achievement and growth built on the back of diversified and intelligent investment. We have reached out into new sectors, new segments and across horizons.

# Building Platforms for Growth

# Investing in People

GFH is long on the kinds of investments that make life better, like homes, education and healthcare. These basic building blocks create sustainable wealth for our investors and the global communities we now serve.



# Key Drivers for Private Education Demand

The trend of growth in private education demand is expected to continue unabated given economic growth, demographic trends and cultural shift.

**Population**
Global population growth, with higher increase in youth population in emerging markets.

**International Curricula / Education**
The desire for international education/ schools is higher than ever, as people look to focus on global mobility and desire to earning premium salaries.

**Average Income**
Middle income population bracket is expanding. Average gross income per household and literacy rates on a steady rise.

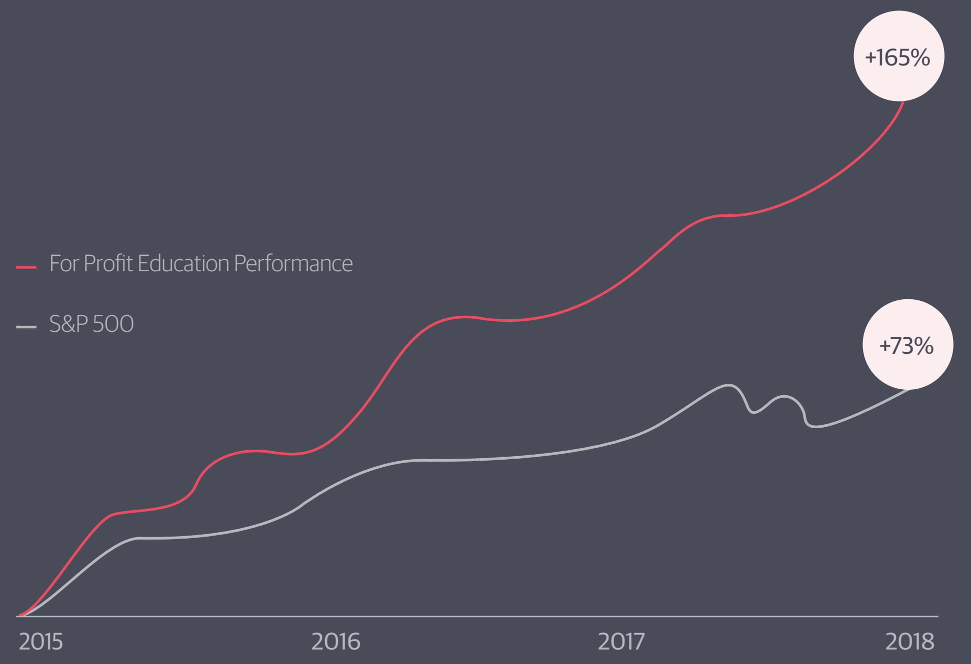
**Urbanisation**
Rapid urbanization trend in developed and emerging markets.

**Supply vs. Demand**
Growing demand for quality education, specially in emerging markets, cannot be met by the overburdened public systems.



Private education is a trillion–dollar+ industry globally. Developed and emerging markets have seen a surge in private education during the last decade.

**Education Index Performance vs. S&P 500**
(2015 to 2018)




100 Billion

Over the past five years, there has been global M&A / transaction activity of $100b+ in the education sector, while there is $42b in publicly traded education companies globally.

# Education Platform

Our investments in education have started to pay dividends already and already amount to 12.5% of our group's holdings.

01

2018 has been a year of tremendous achievement and growth through diversified and intelligent investment. We have reached out into new sectors, new segments and across horizons.

# Operational Review

# Financial Profile
## A strategic review

GFH is a diversified financial group with activities spanning Wealth Management; Real Estate Development; Commercial Banking; and Asset Management.

We remain the Most Profitable Islamic Investment Bank in the Region and continue on this positive growth trajectory with 2018 witnessing a 11.4% increase in Net Profits. The Group enjoys a strong liquidity, capital and assets position, with a 102% Growth in Cash, Bank Balances & Placements with Financial Institutions during the year. Total Assets and Funds Under Management of the Group also grew by 14% in 2018 to $7.3 billion.

With a 10.8% Return on Equity and 46% consolidated Cost to Income Ratio (38% on a solo basis), GFH delivers value to investors and shareholders whilst ensuring organizational efficiency.

- Most Profitable Islamic Investment Bank in the Region
- 10.8% Robust Levels of Return on Equity
- 14% Growth in Total Assets and Funds Under Management to $7.3 billion
- 46% Prudent Consolidated Cost to Income Ratio (38% on a solo basis)
- $1 billion Funds Raised in 2018 across Investments, Real Estate and Money Market products
- $631 million Strong Cash and Liquid Assets Position
- 16.5% Capital Adequacy Compared to 12% minimum regulatory requirement
- 9.3% Dividend and Share Distribution
- 18.0% Growth in Total Income and 10.8% Return on Equity
- 102% Growth in Cash, Bank Balances & Placements with FI during 2018

**11.4** %

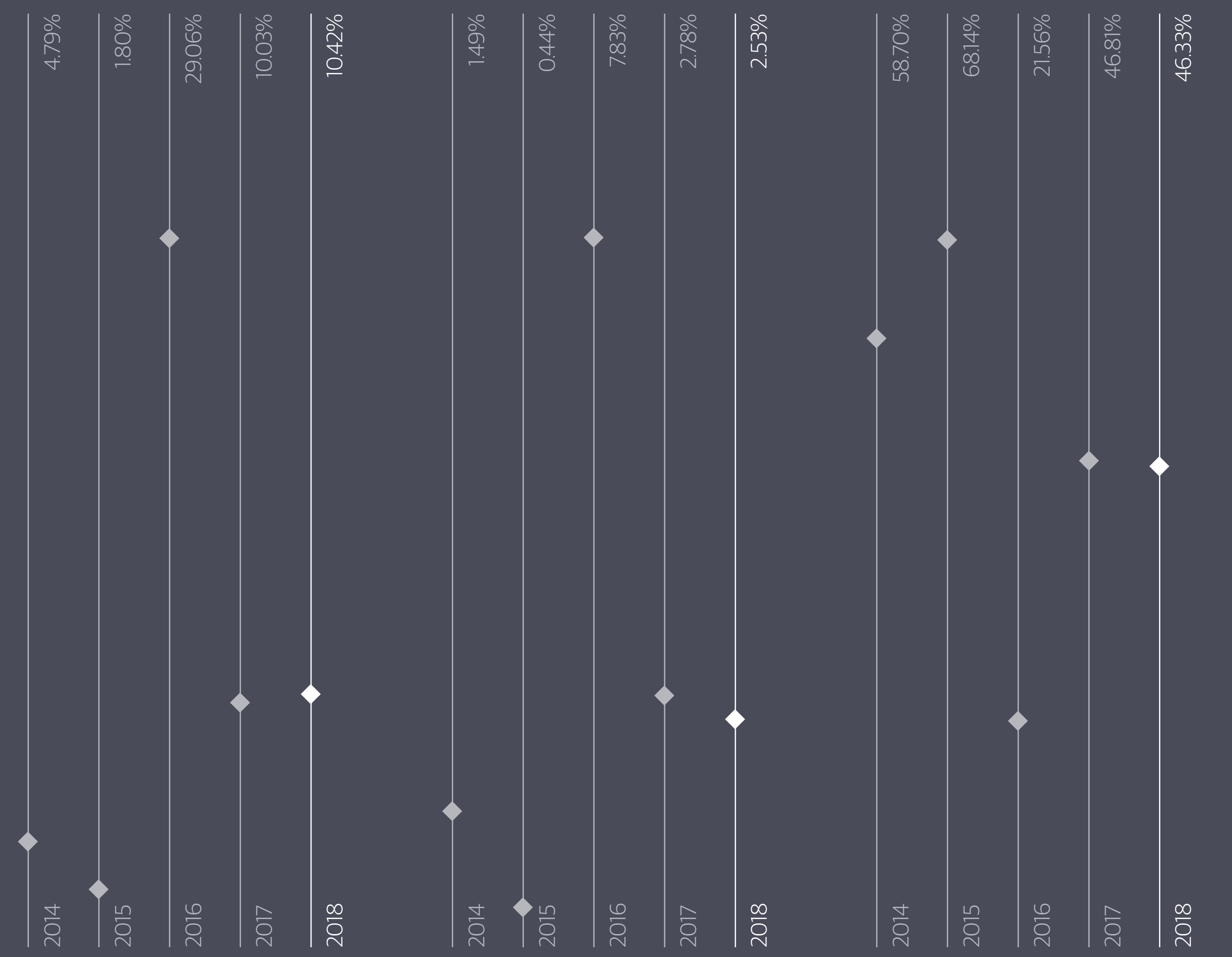
We remain the Most Profitable Islamic Investment Bank in the Region and continue on this positive growth trajectory with 2018 witnessing a 11.4% increase in Net Profits.

**7.3** Billion

Total Assets and Funds Under Management of the Group also grew by 14% in 2018 to $7.3 billion.



With a 10.8% Return on Equity and 46% consolidated Cost to Income Ratio (38% on a solo basis), GFH delivers value to investors and shareholders whilst ensuring organizational efficiency.




Return on Ave Equity#

Return on Ave Assets

Consolidated Cost to Income Ratio*

# Profit/Average Total Equity
* Cost does not include provision for impairment. Income is net of Finance Expenses

# Invested in Education

A good education is the key to a successful life. Over the past 3 years, we have managed total assets in private education within the GCC exceeding $300 million in market value.

# Our Board of Directors
## A Singular Vision

## 10 Directors

GFH's Board of Directors provides a visionary platform of wisdom and expertise that guide our brand towards new levels of prosperity and growth. Their remarkable breadth of experience spans the fields of international business, law, finance, economy, engineering, construction and business administration.

Through decades of excellence in a wide range of fields, our Board of Directors' vision inform our decision-making, growth strategy and long-term prosperity. Their foresight and acumen provide us with a steady hand and wise counsel for our bold strategic moves and expansive diversification.

**Jassim Alseddiqi**
Chairman, Executive Director

Jassim Alseddiqi is the Chief Executive Officer of ADFG. He has been at the helm of the company since its establishment in 2011, transforming it into one of the leading and fastest growing investment management companies in the MENA region. Jassim is known for his dynamic and innovative approach, having pioneered investment strategies in the region. He is the Chairman of SHUAA Capital, GFH Financial Group ("GFH"), Eshraq Properties, Khaleeji Commercial Bank and The Entertainer and also serves on the boards of First Abu Dhabi Bank (FAB) and Abu Dhabi Capital Group, ADNOC Distribution and Dana Gas.

Jassim holds a BSc in Electrical Engineering from the University of Wisconsin-Madison and an MSc in Electrical Engineering from Cornell University. He has also served as a noted lecturer at the Abu Dhabi-based Petroleum Institute.

**H.E. Shaikh Ahmed Bin Khalifa Al Khalifa**
Vice Chairman, Executive Director

Shaikh Ahmed Bin Khalifa Al Khalifa is a leading business figure in Bahrain who brings to the Group extensive experience in banking, public and private advisory, and key ministerial roles. He is currently the Chairman of GFH Capital and Vice Chairman of GFH Financial Group. Previously Shaikh Ahmed was the Advisor for Community Affairs at the Crown Prince Court (Rank of Minister) and for His Royal Highness the Crown Prince (Rank of Minister) (2009). He was also the Secretary General of Supreme Council for Defence (Rank of Minister) (2006) and served as the Kingdom of Bahrain's ambassador to the United Arab Emirates during the period 2000 to 2006. Prior to these roles he was the Head of the Arab Banking Corporation (ABC) office in Abu Dhabi.

He holds a bachelor's degree in computer science and accounting from the University of Bahrain, a certificate from the College of Science of King Fahad University of Petroleum and Minerals, a Global Credit Analysis certificate from BPP Training and Consultancy – London, and a Gulf Executive Management and Strategic Leadership certificate from Colombia University New York.

**Hisham Alrayes**
Member & Group CEO, Executive Director

Hisham Alrayes, Chief Executive Officer and member of the Board of Directors of GFH Financial Group, is leading the Group forward towards its vision of becoming the region's most prominent, diversified financial Group, and one that provides a remarkable platform for delivering superior Wealth Management, Real Estate, Commercial Banking and Asset Management services. Hisham brings extensive expertise and an in-depth knowledge of GFH. He was instrumental in driving the development and execution of the Group's regional and international investment strategy and managed the bank's liabilities as Chief Investment Officer prior to his appointment as Group CEO in 2012, and since his appointment as CEO, has driven the development and execution of the Group's regional and international diversification strategy. Previous to joining the group in 2007, Hisham was part of the senior management team of the Bank of Bahrain & Kuwait ('BBK'), a leading commercial bank in the Kingdom of Bahrain where he was responsible for a number of key projects and new venture initiatives. He currently chairs and holds a number of directorships in financial, Industrial and real estate companies including Esterad Investment Company Balexco, Gulf Holding Company, Khaleeji Commercial Bank, Falcon Cement and GFH Capital.

Hisham holds a Master's degree with honours in Business Administration from the University of DePaul, Chicago (USA), and a Bachelor's degree in Engineering with honors from the University of Bahrain. Hisham has been named 'Bank CEO of the Year' (2017) at the CEO Middle East Awards and was honoured amongst leading regional CEO's at the 'Top CEO Awards' (2017).





**Mazin AlSaeed**
Member, Independent Director

Mazin Al Saeed brings to the Group 26 years of leadership and management experience across a diverse array of sectors. He has served as a member of GFH's Board of Directors since March 2017 and is the Chairman and Chief Executive Officer of Mazen M. Al Saeed Holding Company (MASHCO), a company based in Khobar, Saudi Arabia that has business interests across a number of industries. He has held a number of key roles during his extensive career including a position at Mohammed Abdulrahman Al Saeed & Sons Co. He was also a partner in Maher and Mazen Al Saeed Co. and served as Chairman in Mazen Mohammed Saeed Development Group from2000 to 2006. Currently he is on the Board of Directors for Aseer Trading Co., Al Mutaqadima Petrochemical Co., Mena Capital Co., and the Saudi Cancer Society. He holds a bachelor's degree in Architectural Design from King Fahad University of Petroleum and Minerals.

**Mosabah Al Mutairy**
Member, Non-Executive Director

Mosabah Al Mutairy brings extensive financial expertise amassed throughout his 17 -year career spanning investment, finance and accounting. He is currently a member of the board of directors for a number of organization's including the Investment Committee of Royal Guard of Oman Pension Fund, in which he plays a pivotal role in managing funds, The Hotels Management Co. Int, Dhofar Power Company, India Entertainment City, and Mena Resident Company among others. He holds an MBA in Finance from the University of Lincolnshire & Humberside, a bachelor's degree in Accounting from South West London College and several postgraduate qualifications in Accounting.

**Ghazi Faisal Al Hajeri**
Member, Independent Director

Ghazi Al Hajeri is a prominent businessman and expert financial strategist with more than two decades of experience and a proven track record directing strategy and driving business success. Ghazi is currently the deputy CEO of Touristic Enterprises Co., an entity owned by the Kuwait Investment Authority and the oldest and largest provider of recreation and entertainment in the State of Kuwait. Prior to this role, he was the Managing Director for Wafra InterVest Corp., where he established Wafra's first regional office and oversaw the firm's regional business strategy and product development while serving as liaison for the firm's largest clients. During his time with Wafra, he devised the Company's strategic plans to expand its assets from $7 billion to $20 billion over a period of 10 years, and managed complex projects for sovereign wealth and pension clients that included asset allocation, business development and investment planning. He was also a member of Wafra's Alternative Investments Division Committee who was tasked with reviewing and monitoring external investment managers whilst directing departmental strategy at the Wafra Investment Advisory Group in New York. Prior to this, he worked in Financial Consultancy at Merrill Lynch. He holds a Bachelor's degree in Science in Business Administration from the University of Denver.

**Bashar Mohammed Al Mutawa**
Member, Independent Director

Bashar Al Mutawa is a knowledgeable and prominent businessman who brings decades of experience driving the strategic success of organisations. His extensive involvement in the financial services industry includes key executive and consultancy roles in the Kingdom of Bahrain. These include Managing Director of Noon Investment Company, a real estate focused Investment Company, and Consultant with KPMG's Corporate Advisory Department, where he was responsible for providing corporate advisory to prominent organisations and institutions in the public and private sector, including financial institutions, real estate companies, industrial organisations and government entities.

He currently is a member of the board of directors for Al Jazeera Tourism Company, Naseej BSC©, Tashyeed Properties, Bahrain Film production Company and Saar Investment Company.

Bashar holds a Bachelor of Science degree in Finance and Economics from Babson College, Boston, MA.





**Dr. Rashid Nasser Sraiya Al Kaabi**
Member, Non-Executive Director

Dr. Rashid Nasser Sraiya Al Kaabi is a regionally and internationally reputed businessman and Vice Chairman of multinational conglomerate Al Sraiya Holding Group where he has been a key driver of its expansion throughout the GCC, and in Turkey, the US, UK, Germany and Poland, and a keen advocate of the power of family companies to facilitate private sector growth and prosperity. Dr. Rashid is a member of the Board of Directors at Qatar Chamber of Commerce and Industry (QCCI), Chairman of the industry committee at QCCI and Member of the Steering Committee of Manateq (Qatar Economic Zones Company; and member of the Board of Qatar Enterprises Company. He is also a member of the board of directors for numerous financial organisations including Audi Bank, Qatar National Islamic Bank and Islamic Holding as well as real estate companies Msheireb Properties and Arady Properties Abu Dhabi. He also sits on the board of Islamic Insurance Company and the Qatar Chamber of Commerce. Dr. Rashid holds a B.A. in Law from Beirut Arab University and Honorary Degrees in Literature and Business Management from the Open International University for Complementary Medicine and Medicine Alternative.

**Mustafa Kheriba**
Member, Executive Director

Mustafa Kheriba is the Group Chief Operating Officer of ADFG, and Executive Director of the Company's Investment Manager, ADCM Ltd. where he manages the investment activities, business development and control aspects of ADFG and its subsidiary companies. He also oversees deal origination, fund raising activities and directly manages key investments for the Group. Mustafa serves as Executive Director of Integrated Alternative Finance, Spadille Ltd, Northacre Plc, Reem Finance, and Integrated Securities, in addition to a Non-Executive Director at Qannas Investments Limited. He is also a board member and Managing Director of Gulf Finance Company in the UAE and KSA, and serves on the boards of Shuaa Capital, Khaleeji Commercial Bank, and ADCorp. He held a number of senior posts in financial services and investment companies in the GCC, USA and Canada, and was named among the top 50 MENA Fund Managers in the 2015 and in 2016 annual survey conducted by MENA FM Magazine. Mustafa holds a BA from the University of Toronto, and an MBA from Ohio Dominican University with Magna Cum Laude honors.

**Amro Al Menhali**
Member, Independent Director

Amr Al Menhali has a 20 years track record within leading UAE banks in a variety of leadership roles across the banking industry. In his previous roles, he was instrumental in formulating a robust credit risk culture which created a healthy portfolio within the business. He also headed an Islamic Banking business during its transformational stage, modified its business strategy and corporate branding to become the most prominent business window operations in the UAE.

Amr sits in several boards across different companies and is part of the committees of multiple business segments and is a representative in the UAE Banking Federation. He has acquired strong expertise in finance, risk, strategy and corporate governance providing him with a distinguished finance career where he gained a blend of multi-dimensional experiences across the risk and business spectrums underpins his evaluation and analytical skills.

Amr holds a Bachelor's Degree, with Honours, in Business Administration and Marketing. He also successfully completed a post-graduation General Management Program from Harvard Business School (HBS), Boston, in May 2011.



## Invested in our People

GFH's board of directors understands the importance of our human capital and how unleashing their inner potential drives our business forward.



# Healthcare Platform growth projection

**Senior Housing Market in the US**
The senior housing market consistently proves to be resilient to changes in the economic climate, since demand is solely based on an aging population and imminent demographic changes. The Baby Boom generation will continue to create demand for senior housing. By 2020, more Baby Boomers will be over the age of 65 than under it. Additionally, more individuals are living longer into their nineties. During the Great Recession, senior housing performed better than any real estate asset class. While currently grouped with niche product sectors like multi-family, hospitality, student housing and self-storage, senior housing is expected to grow beyond these niche products and establish a "core real estate" segment by 2026.

**Investment Opportunity**
GFH Financial Group B.S.C. ("GFH") is entering into a Joint Venture with Madison Marquette Real Estate Services ("MM"), one of the fastest growing real-estate companies in the US, to acquire a diversified portfolio of Senior Living and Healthcare facilities across California, Washington and Michigan (the "Portfolio").

The Portfolio is currently 93% occupied and comprises 509 units, of which 248 units cater to Independent Living, 153 units to Assisted Living, and 108 units to Memory Care. The units are operated by Senior Resource Group ("SRG"), JEA Senior Living ("JEA") and Independence Village ("IV"), all best in class Senior Living operators. JEA and SRG are also investing equity alongside GFH and MM in their respective properties.

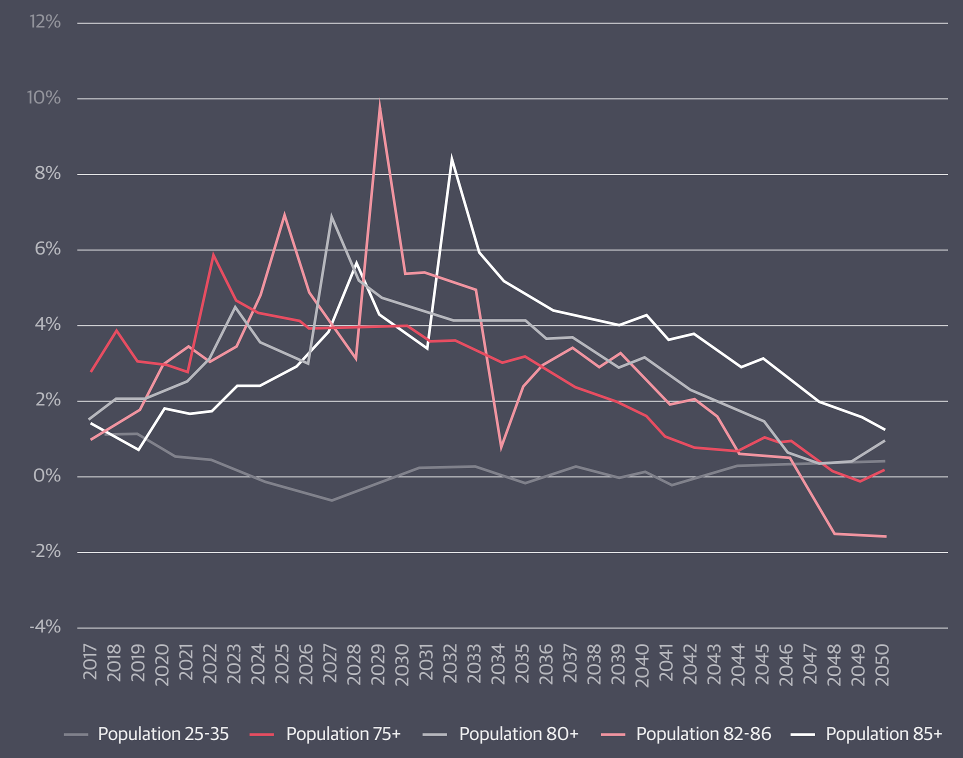
**About the Asset Manager & Property Operators**
Madison Marquette ("MM") is a leading private real estate investment manager, developer and operator headquartered in Washington, DC. Founded in 1992, the company's reputation is built on the successful repositioning and redevelopment of commercial mixed-use assets in major gateway and emerging high-growth markets throughout the US. MM partners with global institutional and private equity investors to achieve industry-leading investment performance across asset classes.

In June 2018, MM acquired PMRG, which is a specialist real estate asset manager in the senior living/healthcare space and has a strong dominance in the southern US. PMRG offers leasing, property management, investment management and development services, combined with MM's specialized development, investment and marketing expertise. MM's strength in retail and mixed-use assets joins PMRG's office, medical, industrial and multi-family capabilities to provide national leadership across asset classes. PMRG's dominance in the southern US combines with MM's presence in primary gateway markets on both coasts to serve the top institutional owners and investors in the industry.



Senior healthcare provides the senior population with a full range of hospitality and care products – an asset class combining residential real estate and healthcare.

**Annual Population Growth Rate Projection**
2017-2050




+3.4% Growth

The sizes of the 80+ and 85+ populations are expected to increase at a rate of approximately 2% and 1.2% per year, respectively, during the remainder of the decade, while the early part of the next decade will see elderly population growth accelerate—averaging 3.4% and 2.1%, respectively, from 2021 through 2025.

# Healthcare Platform

Our healthcare investment platform is the latest in our initiatives to provide a robust and stable foundation for long term growth.

# Our Executive Team
## Delivering Distinction

Hisham Alrayes, Chief Executive Officer and member of the Board of Directors of GFH Financial Group, is leading the Group forward towards its vision of becoming the region's most prominent, diversified financial Group, and one that provides a remarkable platform for delivering superior Wealth Management, Real Estate, Commercial Banking and Asset Management services.

Hisham brings extensive expertise and an in-depth knowledge of GFH. Prior to his appointment as Group CEO in 2012, he was instrumental in driving the development and execution of the Group's regional and international investment strategy and the management of the bank's liabilities as Chief Investment Officer. Previous to joining GFH in 2007, Hisham was a member of the senior management team of the Bank of Bahrain & Kuwait ('BBK'), a leading commercial bank in the Kingdom of Bahrain where he was responsible for a number of key projects and new venture initiatives.

He is currently the Chairman of Esterad Investment Company Balexco and Gulf Holding Company, and holds directorship in Khaleeji Commercial Bank, Falcon Cement Company and GFH Capital.

Hisham holds a master's degree with honours in Business Administration from the University of DePaul, Chicago (USA), and a bachelor's degree in Engineering with honours from the University of Bahrain. Hisham was named 'Bank CEO of the Year' (2017) at the CEO Middle East Awards and honoured amongst leading regional CEO's at the 'Top CEO Awards' (2017).



GFH's Executive Management and Senior Leadership Team represent a distinguished group of financial and managerial experts. Their combined international experience and deep-rooted regional knowledge provide a solid foundation in which we continue to build our diversified structure.

**Hisham Alrayes**
Group CEO & Board Member

**Baha Al-Marzooq**
Chief Corporate Control

Baha Al-Marzooq, Chief Corporate Control, supports the Group's strategic success by ensuring a systematic and disciplined approach to internal control, risk management and governance processes. A member of GFH's Management Committee, he also leads several departments, either directly or administratively, including Corporate Control, IT, Litigations, Legal and Compliance.

Baha has two decades of experience in auditing and banking in the Islamic and Investment banking sectors, and for the last few years has supported the Group's recovery efforts that were remarkably concluded with total revenues above US$500 million.

Prior to joining the Group, Baha worked with Ernst & Young (EY) - Bahrain, one of the 'Big Four' global auditing firms, as Manager in the Assurance Services of Islamic Banking Group during which he also served in other regional offices of EY such as Kuwait, Qatar and Houston Texas - USA.

He holds a B.Sc. in Accounting from Bahrain University and is a Certified Public Accountant (CPA) California, USA in 2001. He holds an Executive MBA from the University of Bahrain in addition to a number of specialized professional qualifications including, Certified Internal Auditor, Chartered Global Management Accountant and has a Certification in Risk Management Assurance. He has also participated in several technical, business and leadership programs.

**Salah Sharif**
Chief Administrative Officer

Salah Sharif, Chief Administrative Officer, is a key player in the strategic as well as day-to-day management of the Group's core corporate support functions. In addition, he is responsible for ensuring that the highest standards of operational excellence are achieved for the Group's Special Purpose Vehicles and Project companies. He also serves as a Board member in several project/operating companies that fall under the GFH Financial Group brand.

An industry veteran with over 30 years of international exposure and experience in both conventional and Islamic financial institutions, Salah is conversant with industry best practices in all aspects of commercial, wholesale banking, and in the industrial and infrastructure advisory sector. Prior to his appointment at GFH, Salah was the CEO of Cemena Holding Company (CHC), an industrial subsidiary of the Group which was one of the largest cement holding companies in the MENA region. Previous to this he held a number of senior roles in leading, global financial institutions, including Operations and Facilities Manager, Middle East & North Africa at American Express in Bahrain and at Standard Chartered Bank in Bahrain where he held various managerial and executive positions including Head of Operations.

He holds a Master of Business Administration from the University of South Wales, U.K.

**Surya Hariharan**
Head of Financial Control

Surya Hariharan, Head of Financial Control, works closely with the Group's executive management team and is responsible for the accounting, financial planning and analysis, and stakeholder reporting, including regulatory reporting, for the Group and its owned subsidiaries. Surya has more than 16 years' experience in stakeholder reporting, audit services, business process improvement and transition and risk advisory. Prior to his appointment at GFH, he was the Head of Finance for a private equity venture in Abu Dhabi backed by sovereign wealth funds and ultra high net worth individuals. Previous to this he was in audit services and real estate domain at KPMG in both Bahrain and Qatar, and Pricewaterhouse Coopers in India.

He holds a bachelor's degree in Commerce from the University of Mumbai, India, and is a Chartered Accountant (CA) from the Institute of Chartered Accountants of India, and a Certified Management Accountant, USA.

**Dr. Mohamed Abdulsalam**
Head of Sharia & Corporate Secretary

As Head of Sharia and Corporate Secretary at GFH, Dr. Mohamed Abdulsalam supervises all Group transactions to ensure they are conducted in compliance and in accordance with the teachings of Islamic Sharia. Furthermore, Dr. Abdulsalam assumes the fiduciary duty of maintaining all records, meetings and minutes of GFH's Board and its committees in addition to moderating meetings, and managing all record keeping activities for GFH's project companies.

He joined the Group in 2006 with 17 years of Sharia experience. Prior to GFH, Dr. Abdulsalam worked with other Islamic financial institutions in Bahrain. He was a Sharia Auditor at Kuwait Finance House (KFH) and an Internal Auditor at Bahrain Islamic Bank (BisB).

Dr. Abdulsalam obtained his bachelor's degree in Islamic Accounting in 2003 from Al-Imam Mohammed Ibn Saud University. He also holds an MBA in Accounting and Financial Control and a Ph.D. in Accounting from the United States, California. He has also pursued additional qualifications including a Masters of Sharia and Accounting Standards from AAOIFI, courses in Sharia Control Fatwa for Islamic banks as well as successfully completing the third module of the International Arbitration Certificate from Bahrain Chamber for Dispute Resolution (BCDR-AAA) in 2014.

Passionate about his field, Dr. Abdulsalam regularly attends specialized courses covering topics such as: Sharia Auditing, Sharia Standards, Sharia Products and many others in order to expand his knowledge of Islamic finance on an ongoing basis.

**Hammad Younas**
Chief Investment Management

Hammad Younas is the Chief Investment Management and leads the overall investment business of the Group including Private Equity, Corporate Investment and Asset Management. Hammad has more than 20 years of experience in corporate finance, investment banking, private equity, real estate, and asset management, and throughout his career he has led various regional and cross-border transactions in MENA, US, Europe and South Asia across multiple sectors and asset classes. His transaction experience includes mergers and acquisitions, IPOs, listings, secondary offerings, private placements and debt raising. In addition, he is a growth strategy and business development expert.

Prior to joining GFH in 2016, Hammad was a Partner at Ernst & Young MENA and their Transaction Advisory Leader for Bahrain. He was also the CEO of Ernst & Young Corporate Finance, Bahrain. Hammad spent more than 13 years with Ernst & Young advising a wide range of clients including financial institutions, sovereign wealth funds, private equity and real estate investment firms, governments, family businesses and high net worth individuals on their investment, capital raising, performance improvement, restructuring and strategy.

Hammad is a CFA charter holder from the CFA Institute USA, an ACCA from the Association of Chartered Certified Accountants of the UK, and ACA from the Institute of Chartered Accountants of Pakistan.

**Elias Karaan**
Head of Infrastructure Development

Elias Karaan, Senior Executive Director of Infrastructure Development, is responsible for the development of a real estate entity to manage and develop GFH's existing real estate portfolio, to create added value to the Group's existing infrastructure projects, and to pursue new real estate opportunities.

A veteran Engineer, he has more than 38 years of accumulated experience in construction, project management, and in the development of small to large real estate projects in the United States, throughout the Middle East and in Bahrain. His vast experience includes working with large corporations such as FLUOR and ABB. Prior to his appointment with the Group, he was the Managing Director at LTC, a company that has successfully iconic mixed-use developments in the GCC.

Elias holds a M.Sc. degree in Engineering Science from the University of Toledo, Ohio, and a B.Sc. in Electrical and Computer Engineering from Clemson University in South Carolina.

**Salem Patel**
Senior Executive Director

Salem Patel facilitates strategic transactions for GFH in addition to overseeing the treasury & capital markets of the Group. He brings over 20 years of extensive local and international financial industry experience to the Group having previously worked in the Financial Services Division with Accenture in London and prior to this as a Financial Analyst with Long view Partners, London, where he held roles in Equity Research at UBS and Societe Generale.

Salem currently holds a number of Directorships including Al Khaleej Funds and Investment Company (Al Basha'er GCC Equity Fund) and Sheffield School. He graduated from the City University Business School in London with a B.S.C (Hons) in Business Studies specializing in Finance and has obtained a number of certifications including: the Islamic Finance Qualification (IFQ) and the Securities and Futures Authorities Registered Representative (SFA). He is also a certified Chartered Financial Analyst (CFA).

**Imran Sami**
Head of Legal

Imran Sami, Head of Legal, brings to the Group expertise across all aspects of M&A (public and private), including cross border, capital markets transactions and in particular, has a wide experience of acting for private equity and venture capital funds and businesses. He supports the Group's general corporate, commercial and financing legal matters, and works with external local and international counsel on regulatory and litigation matters.

Prior to his joining the team at GFH, Imran was Partner and Head of the International Transactions practice at Burlingtons LLP, an international law firm based in London. Previous to this, Imran led Clyde & Co's Middle East regional private equity practice, and was Corporate Partner at Starr & Partners, and before this he was a Partner at London office of US law firm Katten Muchin Rosenman LLP.

Imran holds a Postgraduate Diploma in Legal Practice from the University College London, London (LLB 2.1) attended the College of Law, Guildford and is a member of the New York State Bar, (1997) and the England & Wales State Bar (1997).

**Mohammed Abdulmalik**
Head of Placement Management

Mohammed Abdulmalik, Head of Placement Management, shapes and implements placement strategies and develops business models designed to capitalize on current market dynamics and potentials. In addition to managing the placement function of the Group, he is currently a Board Member of Capital Real Estate Projects and Sheffield Private School.

A well-versed investment banker, Mohammed brings 21 years of industry experience, having held a number of roles both within GFH, where he leveraged his extensive network of HNWI, FI's and Sovereign Wealth Funds to market Group products and services and contribute to the investment placement business. Prior to joining the Group, he held a number of roles in financial control and auditing with Arthur Anderson, Ernst & Young, and HSBC. He holds a B.Sc. in Accounting from the University of Bahrain.

**Hazim Abdulkarim**
Executive Director

Hazim Abdulkarim, Executive Director - Corporate Communications, orchestrates the creation and implementation of a world class communications strategy for the Group that is focused on ensuring transparent communications with stakeholders and shareholders and building brand equity in the online and offline space. Hazim ensures the Group's relationships with investors and shareholders are sustained and strengthened through effective communication.

Hazim brings more than 23 years of industry experience to the Group. Since his appointment in 2000, he has held several positions within the Group including roles in Operations and in the Fund Administration Department, in addition to directorships in numerous project companies and Special Purpose Vehicles. Prior to joining GFH, he served in the corporate banking division of Bank of Bahrain and Kuwait (BBK).

Hazim holds an MBA from the University of Glamorgan UK, an Advanced Diploma in Islamic Banking, and has passed the Investment Representative Certification Series 7.





**Muneera Isa**
Head of Human Resouces

Muneera Mohammed Isa, Head of Human Resources (HR), manages employee strategies, recruitment, development and retention, career progression, and performance management. In addition to compliance, policy making and the overall implementation of HR regulations.

Muneera is a seasoned HR professional, bringing over 17 years of experience to the Group having worked with regional and international financial institutions in the Kingdom of Bahrain including Bahrain Mumtalakat Holding Company, Capivest and BNP Paribas.

She holds a bachelor's degree in English Literature from the University of Bahrain and a level 5 Chartered Institute of Personal Development Certificate (CIPD).

**Nabeel Mirza**
Head of Compliance

Mr. Nabeel Mirza has been associated with GFH since April 2012 overseeing the Group Compliance function. He is responsible for establishing and maintaining robust and effective Compliance and Corporate Governance Framework across the Group in line with the regulatory requirements and industry's legislations. He is also responsible to ensure compliance of the bank's activities with the rules and regulations of the Central Bank of Bahrain, Bahrain Bourse, Dubai Financial Markets, Securities & Commodities Authority (UAE), Boursa Kuwait, and Capital Markets Authority-Kuwait.

Mr. Mirza has vast exposure of Compliance, Anti Money Laundering and Corporate Governance framework, methodologies and emerging practices in the GCC financial markets and is well versed with regional and international regulations. He works closely with the CEO and other members of the executive management and reports independently to the Board's Audit & Risk Committee of GFH.

He has worked with known International financial institutions, such as Mashreq Bank (Dubai & Bahrain) and Citi Bank (Bahrain & Pakistan).

Mr. Mirza holds Master's in Public Administration from University of Karachi and has completed many professional courses in Compliance, Risk Management and Corporate Governance.

**Abesh Chatterjee**
Head of Risk Management

Mr. Abesh Chatterjee is the Head of Risk Management at GFH Financial Group. He has over 11 years of experience in Risk management. As Head of Risk Management he is responsible for managing all type of risk including Credit, Market, Liquidity and Operational Risk across the Group and ensuring that the risk framework is effective. He is a part of Management Committee and works closely with the Group's CEO and other members of the executive management team, while reporting independently to the Chairman of the Board Audit & Risk Committee of GFH.

Mr. Chatterjee began his journey as a risk management professional in India with ICICI Bank, the largest private sector bank in India. Later he shifted to Bahrain and managed the Risk management function of ICICI Bank Bahrain. He also worked as Head of Risk management in International Investment Bank, Bahrain. Besides Risk management, Mr. Chatterjee has also worked on other areas like ERP system development and Engineering during his stint with Infosys Technologies Limited and Larsen & Toubro Limited, two of the most prestigious companies in India.

Mr. Chatterjee holds a post graduate diploma in Management from NITIE (India) and a bachelor degree in Mechanical Engineering from Jadavpur University (India). He also completed certification in Financial Risk Manager (FRM) from Global Association of Risk Professionals (GARP).

# Inspiring work of execution

With profound expertise and deep knowledge, our executive management ensures the fulfilment of the group's inspiring vision.



# Technology Platform an overview

Technology is currently poised to reshape the world we live in. Highly advanced technologies like blockchain, Artificial Intelligence, the Internet of Things, software as a service (SaaS) and machine learning are currently changing both the technology sphere and our day to day lives through applications in various practical ways, including in autonomous vehicles (AVs), advanced supply chains, e-commerce, industrial manufacturing, and so many others.

With a total estimated market size of USD3 trillion[1], largely driven by improving economies that have been driving the global tech market expansion, with above 4% growth in the US and six other countries[2], and the vast innovation that is constantly ongoing in the sector.

Fintech is one of the key leaders of growth in this industry, with the Middle East actively working to grow their Fintech industry. Fintech investment globally more than doubled during 2018, driven in part by a small number of mega deals – global investment in fintech companies hit $111.8 billion, with over 2,000 deals[3] worldwide. While new startups sprouted across emerging fintech subsectors, highly mature areas, like payments, saw some consolidation.

AI is often touted as the next growth engine for technology. Today, chip companies are clearly benefiting from AI's need for massive processing power, and cloud providers, such as Amazon and Microsoft, will benefit from the heavy storage and computing needs of AI. Many tech companies provide the enabling tools and systems that allow other companies to build AI applications and services – thus shaping it as a platform.

Cloud based innovation has been changing the business world around us, with almost 60% of enterprises expected to move their IT systems to cloud by 2019 as part of their digital transformation initiatives[4]. As the primary value proposition of cloud continues to shift from "cost/efficiency" to "innovation acceleration," multicloud strategies should play a crucial role in this transformation going forward.

As the pace and complexity of new technology developments continue to increase, partnerships—both internal and external— have become essential, and could likely lead to increased strength in partnerships in this sector.

1. Forbes
2. China, Indonesia, India, South Korea, Sweden, Denmark
3. KPMG, the pulse of fintech
4. Deloitte, 2019 Technology Industry Outlook



Fintech is one of the key leaders of growth in this industry, with the Middle East actively working to grow their Fintech industry. Fintech investment globally more than doubled during 2018, driven in part by a small number of mega deals – global investment in fintech companies hit $111.8 billion.

## 3 Trillion

With a total estimated market size of USD3 trillion(1), largely driven by improving economies that have been driving the global tech market expansion, with above 4% growth in the US and six other countries(2), and the vast innovation that is constantly ongoing in the sector.

## 12 Billion

Global investment in fintech companies hit $111.8 billion, with over 2,000 deals worldwide. While new startups sprouted across emerging fintech subsectors, highly mature areas, like payments, saw some consolidation.

# Technology Platform

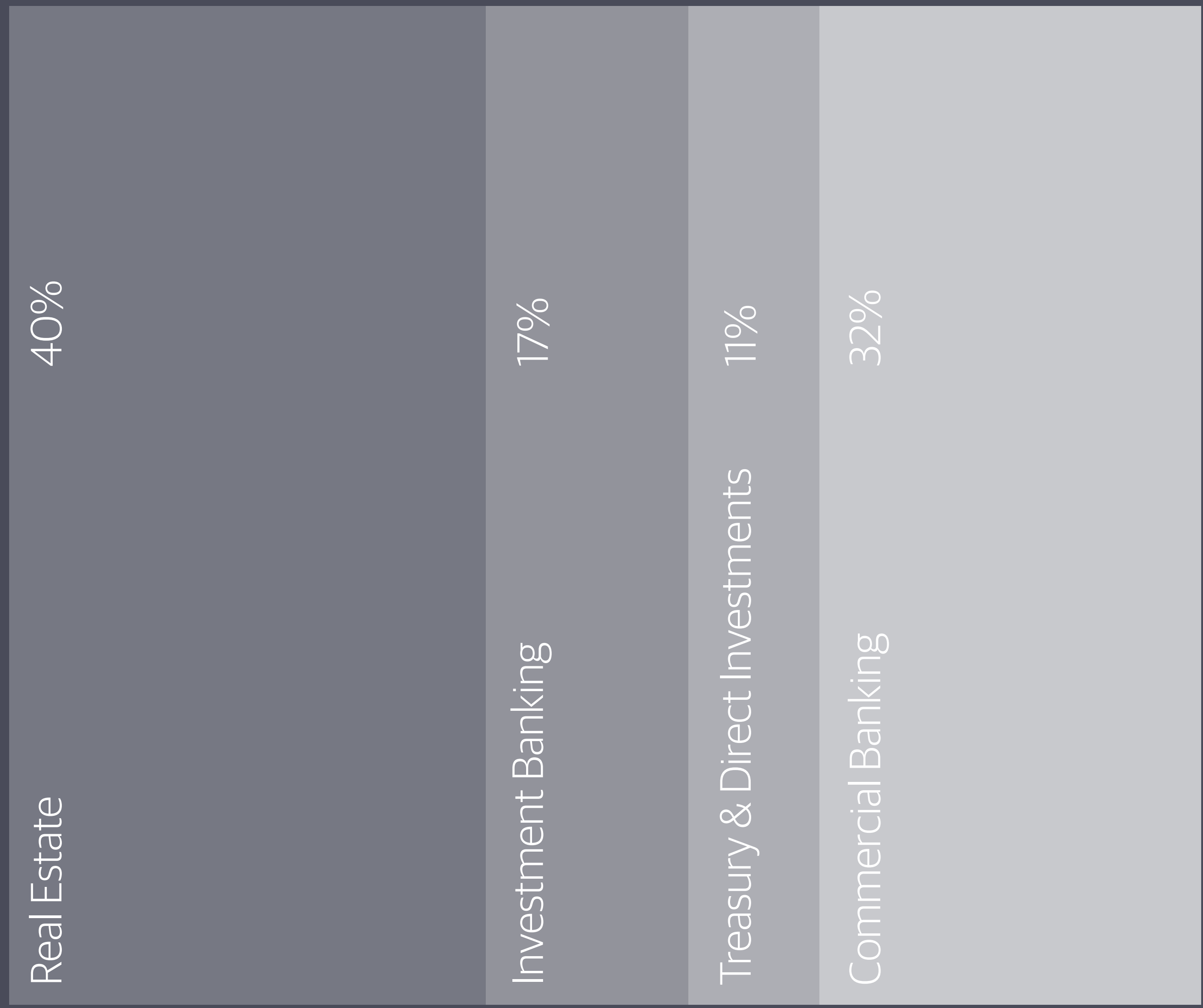
Downtime is as important as any other time, that's why GFH acquires a 23% state in the Entertainer, a unique group-based entertainment, booking and discount app.

# Financial Highlights
## Performance Overview


+14.2%

To 7.3 Billion US$

As of 2018, GFH's portfolio features over US$7.3 Billion in Managed Assets & Funds across a range of asset cases




We are a diversified financial group with activities spanning Real Estate, Investment Banking, Treasury & Direct Investments and Commercial Banking. In 2018, the Group continued to diversify its business mix.

In 2018, the Group continued to make solid gains across the top and bottom line, and demonstrated ability to deliver steady and sustained financial and operational improvements that have been instrumental in solidifying trust in GFH and its position as one the foremost financial groups in the region.




## +18%

### Group Turnover

As of 2018, GFH's Total group turnover, increased by over 18% to US$ 249.7 million

## +21%

### Group Assets

As of 2018, GFH's Total group assets, increased by over 21% to US$ 4,989 million

## +36%

### Group Liabilities

As of 2018, GFH's Total group liabilities, increased by over 36% to Total liabilities, US$ 3,567 million (Including subsidiary liabilities)

# Our Chairman's Report
## Our performance overview

114 Million

Our successful execution across all of these areas underpins our strong results for 2018. For the year, the Group reported consolidated net profit of US$115 million as compared with US$103.19 million from the previous year, an increase of 11.4%, and a net profit attributable to shareholders of US114.08 million compared with US$104.18 for the previous year, an increase of 9.5%.

**Jassim Alseddiqi**
Chairman



With another year of measurable progress behind us, we have entered 2019 with even stronger foundations upon which to grow and execute on our strategy.

Dear Shareholders,

On behalf of the Board of Directors of GFH Financial Group, I am pleased to present the Group's financial results for the fiscal year ended 31 December 2018, marking another period of enhanced profitability and strengthened performance across the Group and its subsidiaries.

This marks the fourth consecutive year that GFH has made solid gains across the top and bottom line, an achievement made all the more gratifying against the backdrop of challenging market conditions that have impacted the MENA region and other global markets where we have historically invested and continue to pursue value creation and growth.

The Group's demonstrated ability to deliver steady and sustained financial and operational improvements has been instrumental in solidifying trust in GFH and its position as one the foremost financial groups in the region.

At the centre of this continued progress has been a highly successful transformation that has seen GFH develop into what is today a fully-fledged financial group with a sound financial base and a well-diversified model that has established strong revenue generating business lines active in Commercial and Investment Banking, Real Estate and Asset Management. Our diversification has also focused on ensuring we are able to effectively take advantage of opportunities across diverse assets classes as well as sectors and regions with high potential. This includes our home markets of the GCC as well North Africa, India, Europe and the US.

In line with our strategy and objectives, during 2018, the focus of our efforts was three-fold. They included the continued deployment of the Group's knowledge, talent and track record to identify and close promising new income yielding investments, to further build and extract value from our existing assets and to secure timely and profitable exits in support of our primary goal, which remains delivering superior returns to our investors and shareholders.

Our successful execution across all of these areas underpins our strong results for 2018. For the year, the Group reported consolidated net profit of US$115 million as compared with US$103.19 million from the previous year, an increase of 11.4%, and a net profit attributable to shareholders of US114.08 million compared with US$104.18 for the previous year, an increase of 9.5%.

The Group's total consolidated revenue was US$246.21 million compared with US$204.36 million in 2017, reflecting a healthy year-on-year increase of 20.5%. Growth resulted from a successfully diversified business model and solid contributions from across its investment and commercial banking, real estate and asset management business lines in addition to increases in other income generated through strategic initiatives undertaken by the Group. Importantly, GFH also continued to deliver on its strategy of achieving profitable exists, which for the year amounted to US$120 million.

Total assets for the year grew from US$4.11 billion in 2017 to US$4.99 billion in 2018. The Group also ended the year with a Capital Adequacy Ratio of 16.5% and Return on Equity (ROE) ratio of 11.1%, verifying robust financial health. Improvements were also seen in GFH's liquidity position. The Group raised more than US$1 billion despite tough market conditions, positioning itself for further growth and investment. Enhancements to the balance sheet were again achieved in 2018 and the Group's liability profile was optimized. During the year, GFH repaid the entire amount of a US$200 million Sukuk, which was originally drawn in 2007, and achieved early payment of a Wakala facility. Also, of note during the year, GFH took active steps to support its share price and market capitalization, acquiring treasury shares up to 7% of the Group's total issued shares.

# Our Chairman's Report Continued

Gains made throughout the year, coupled with these initiatives, have resulted in further strengthening market confidence in the Group, whose ratings were affirmed by a number of international ratings agencies. This included Fitch, which maintained the Group's "B" rating with a stable Outlook, despite tough local and regional market conditions and downgrades.

Strong results enabled the Board to recommend robust cash dividend to shareholders for the year, subject to approval by the General Assembly. These dividends reflect GFH's progressive policy and continue to make the Group one of the strongest dividend payers in the region. Similarly, solid returns were also delivered to our investors throughout the year. In 2018, a total of US$28.5 million was paid to investors across all of the Groups' managed funds and investments.

Looking at some of the key highlights of the past year, we continued to identify and close a number of strategic investments. The Group successfully expanded its international portfolio of income yielding real estate assets. In the UK, we acquired the Westside Office Business Park in Hemel Hempstead, a prime office market, located just north of London. Significant investments were also made in the US including the acquisition of two trophy Chicago suburban office properties in a deal valued at US$150 million. With a continued focus on investing in the future and strong defensive sectors, GFH now plans to establish dedicated healthcare and education real estate platforms in 2019 allowing us to better capture and leverage opportunities in these segments.

On the private equity front, the Group made its first technology investment during 2018. In a US$150 million deal, it acquired the UAE-based ENTERTAINER, one of the leading incentive providers and lifestyle technology platforms in the region with global reach and operations. Having already doubled its size over the past two years, we are working closely with our partners in this investment, including Al-Futtaim, to build further market share and derive value from the high growth technology and lifestyle sectors.

Strong progress from across the Group's existing assets was also reported. The Group's commercial banking business, Khaleeji Commercial Bank performed well. Total assets of the Bank grew 8.7% from US$2.08 Billion in 2017 to US$2.26 Billion in 2018. While customer deposits also increased by 8.3% from US$1.3 Billion to US$1.42 Billion. The Bank's corporate finance division also witnessed a positive growth trajectory.

The Group's other assets also continued to perform well and support revenue generation and dividends to investors. These included our investments in AMA International, Jeddah Mall, US Industrial Real Estate I & II, Sheffield Private School, US Data Center and our Diversified US Office Portfolio.

In our real estate and infrastructure portfolio, we successfully took assets with relatively low book value and have begun turning them into revenue generators such as hotels and retail centres. This includes our land banks in Bahrain, Dubai, India, Tunisia and Morocco, which will provide the Group with a range of markets and classes from which we can realize benefit over the medium to longer term. Particular progress was made in our India project, where we successfully inaugurated the first integrated township in the Navi Mumbai Airport Influence Notified Area, a housing development called Wadhwa Wise City, where pre-sale of units has begun.

Significantly, in our home market of Bahrain, great strides were made in furthering our landmark Villamar project, for which we acquired the majority Sukuk and are rapidly taking the development towards expected completion. New master planning was also commenced at Al Areen, which is being upgraded with the aim to establish another key tourism, exhibition and sports and leisure destination in Bahrain following the project's completion in 2019. Supporting economic and social development in the Kingdom and support for the achievement of its Vision 2030 goals is at the heart of what we do and underpins our position as one of the most significant and active investors in the Kingdom.

Further, in line with our efforts to return value to shareholders and investors, a number of strategic exits were achieved during the year. Among these were the sale of the Lost Paradise of Dilmun in a deal valued at US$60 million. The Group also exited its 70% stake in the Dubai-based Philadelphia Private School, which it acquired in October 2014, delivering a return of 33% over a three-year investment period.

With another year of measurable progress behind us, we have entered 2019 with even stronger foundations upon which to grow and execute on our strategy. 2019 marks 20 years of focus and dedication that has seen GFH effectively navigate many highs and lows. We are extremely proud of the position in which we have emerged today and redouble our commitment to all of our partners, shareholders and investors that have been instrumental in our journey and ultimate success.

We have every confidence that we can build on this momentum and deliver further top and bottom-line growth both outright and from across our various business lines including achieving greater contributions from our real estate activities. In terms of our focus, three key themes will continue to guide our strategy with further planned investments in education and healthcare, the well performing US markets, and growth private equity. We will also continue to seek cross listings and a strengthening of our position in strong liquidity markets with plans to establish operations in Saudi Arabia and the UK that will better enable us to access capital and opportunity.

In concluding, I would like to thank GFH's management team and our staff for their continued contributions and stellar performance again this year. I would also like to extend our deep appreciation to our shareholders and investors for their sustained confidence in GFH, to the Central Bank of Bahrain for its ongoing guidance and support and the Government of the Kingdom of Bahrain for its visionary leadership under His Royal Majesty King Hamad bin Isa Al Khalifa, His Royal Highness the Prime Minister Prince Khalifa bin Salman Al Khalifa and His Royal Highness the Crown Prince and Deputy Supreme Commander Prince Salman bin Hamad Al Khalifa.

We look forward to another year that will take GFH from strength to strength and to sharing our progress over this next phase of growth and development for the Group and the markets in which we operate.

Sincerely,

**Jassim Alseddiqi**
Chairman

# Message from Group CEO

## 1 Billion

During the reporting period the Group highlighted its strong fund raising capability with over $1 billion in Investments, Real Estate and Money Market products was raised, emphasizing the continued confidence that the market and clients are placing in GFH, and solidifying trust in GFH as one of the region's strongest financial groups.

**Hisham Alrayes**
Group CEO & Board Member



GFH is transforming into a diversified financial group with an integrated product offering across multiple geographies. As we move into 2019 we are confident that the Group is positioned well to continue on our positive growth trajectory.

In 2018, the success of this diversification strategy and the Group's ability to sustain profitability despite market challenges, including volatile and falling oil prices, falling equity markets and socio-political upheaval and a lack of liquidity in the market, was underscored.

The strategic focus of the year was on the core business, in particular the investment banking business continued to build a portfolio of high income yielding real estate assets in liquid markets such as US and Europe and Private Equity in defensive sectors such as education, consumer tech and health care.

During the reporting period the Group highlighted its strong fund raising capability with over $1 billion in Investments, Real Estate and Money Market products was raised, emphasizing the continued confidence that the market and clients are placing in GFH, and solidifying trust in GFH as one of the region's strongest financial groups.

The Group continued to adopt a cautious approach in selecting investments in line with the Board and our investor's risk appetite focusing on stable, income generating assets. Our investment philosophy is informed by our deep understanding of the markets and the preferences of our investors and shareholders and our responsibility to ensure investments in safe, defensive sectors that provide timely returns.

GFH remains one of the most profitable Islamic investment banks in the region. The Bank delivers above market levels of Return on Equity, has a strong cash and liquid assets position, a world class management team, and a proven track record of delivering shareholder and investor value.

2018 witnessed expansion of our business lines, with the launch of a new Treasury and Money Market business which performed well with expectations for further growth in 2019. As we move into 2019 we are confident that the Group is positioned well to continue on our positive growth trajectory. We are building investment platforms to maximise on opportunities in the healthcare and trillion dollar plus global private education sector, while iconic GFH destinations, including Harbour Row, Villamar and Al Areen Development are expected to take shape and positively impact the bottom line.

**Hisham Alrayes**
Group CEO & Board Member

# GFH's Business Activities
## Finding strength in diversity

GFH is a dynamic financial group with a clear vision to develop a high growth, diversified investment and commercial portfolio. GFH actively seeks unique opportunities to grow the value and potential of its investments. To achieve industry-leading performance, GFH's business lines cover key aspects of the financial services value chain; from high end financial products and investments, to high street commercial banking operations. Following are the details of GFH's business activities:

**Commercial Banking**
Khaleeji Commercial Bank BSC (KHCB) is an Islamic bank, headquartered in the Kingdom of Bahrain, and operating under a Retail Islamic Banking license granted by the Central Bank of Bahrain (CBB). KHCB was established in 2004 by GFH and is now a Public Bahraini Shareholding Company listed on the Bahrain Stock Exchange as well as being cross-listed on the Dubai Financial Market during 2017, with a current paid up capital of BD 105m. KHCB offers a range of banking and investment products and services to retail clients, high-net-worth individuals, corporate entities, and financial institutions. These include commercial and corporate banking, retail banking, wealth management, structured investment products and project financing facilities. GFH currently owns 55.41% of KHCB.

**Wealth Management**
The Bank's core offerings have centred on its wealth management capabilities. The bank seeks to create portfolio growth for its clients by first understanding the specific risk profile that best meets the aspirations of the investor.

With a valued client base of loyal high net worth individuals and institutional investors, GFH is one of the recognized leaders in the region for fund raising and sharia compliant investment offerings. GFH's pioneering and innovative approach to market opportunities and to tailored Islamic compliant financial solutions is unique and difficult to replicate, enabling it to successfully place, originate, structure and participate in opportunities in several growing sectors, including Islamic finance, infrastructure, energy, industrial assets and real estate.

**Asset Management**
**a. Real Estate Investment Activities**
The Real Estate Investment team is responsible for originating, executing and managing investments in yielding real estate asset classes in the target markets of the GCC, Europe and the United States. The objective in this team is to find leveraged real estate investments that will generate strong levered cash on cash returns for investors whilst minimizing overall risk. This provides diversification benefits across the full spectrum of real estate asset classes in strong markets.

The assets managed by the Real Estate Investment Team currently include:
- Two US Industrial Portfolios, US
- Diversified US Residential Portfolio, US
- Event Mall, Jeddah, KSA
- US Data Centres Portfolio
- Diversified US Office Portfolio
- Trophy Suburban Chicago Office Asset, US
- Westside Office Asset, UK

**b. Private Equity**
The Private Equity ("PE") team is responsible for identifying and managing investments in companies that are growing and profitable. The PE Team works with investee companies and their management teams to fully realise and maximise future returns. The aim is always to find investments which can provide capital appreciation for all our investors. The assets managed by the PE Team include:
- AMA International University, Bahrain
- The Sheffield Private School, Dubai
- Falcon Cement Company, Bahrain
- Bahrain Aluminium Extrusion Company, Bahrain
- The Entertainer, Dubai

**Real Estate Development**
The Group is targeting expanding its operations and income from the existing and potential infrastructure developments and leisure designated plots and developing and managing income generating hospitality assets in the GCC region, North Africa and Asia.

**a. GFH Infrastructure Development & Hospitality:**
The group had historically successfully launched a number of key infrastructure projects across the MENASA region with a total estimated development value exceeding US$ 20 billion. GFH takes a unique view in the investment world when approaching these large-scale economic infrastructure projects and this has played an instrumental role in encouraging a paradigm change in the economic landscape of the GCC, North Africa and other parts of the world. The GFH approach focuses on delving into the details of an investment, following due diligence, conceptualising the project, securing land and injecting cash into the project to start the ball rolling. Some of these projects are coordinated in partnership with various governments and aim to contribute positively to the socio-economic development of countries hosting the Bank's initiatives.

To name a few of the region's leading Real Estate Development projects initiated by GFH in the MENA and Asian regions include:
- Royal Parks Marrakech
- Energy City Qatar
- GFH Mumbai Economic Development Zone
- Energy City Libya
- Tunis Financial Harbour
- Bahrain Financial Harbour

**b. GFH Properties:**
The Group has a rich land bank for development. Through GFH Properties the Group sought the development of its existing land bank in order to further stimulate value creation and generate healthy returns from its existing real estate portfolio. With that it further implements its strategy to develop high growth, diversified real estate investment, and development portfolio. GFH actively seeks unique opportunities to create landmark projects and through its specialized arm, GFH will encompass project development, project & facility management, project advisory, managing and developing income generating portfolios, and other specialized services. GFH Properties is building on the Group's legacy and presence in the real estate market by first launching the below projects and with the aspiration to expand and develop further.
- Harbour Row, Bahrain
- California Residences, Dubai
- The Harbour Walk

GFH Properties has also recently took over the management, of the Villamar Project, following GFH Group acquisition of majority ownership in the holding company of the project and funding completion of phase 1.

GFH Properties is also enhancing and expanding the current hospitality offerings of the Group, working alongside internationally renowned Operators and reaching out to millions of members around the globe.

# Management review of operations

1 Trillion

Private education is a global industry worth over USD 1 trillion and GFH is leading the way in helping investors capitalize on this industry's growth via structured investments that can take advantage of key market opportunities through forming BE Holdings, a world class platform of K-12 education assets.

**Asset Management**
**Real Estate Investment Activities**
2018 was another successful year for GFH's real estate equity investments as the momentum from 2017 continued to contribute well towards Group's and our investors' profitability.

The renewed focus on Europe under the international real estate equity investment strategy saw deployment of circa. US$ 100 million in the Westside Office Business Park in Hemel Hempstead, UK. Located just north of London and off the M25, the ring road around greater London, the complex comprises four Class A office buildings occupied by a well-diversified, credit-rated tenants. The exposure to UK market presents an opportunity to capitalize on anticipated GBP appreciation over the next couple of years as well as capture the right pricing of assets at this point in time. In addition this provides diversification benefits to the investors to another strong market and globally recognized real estate capital of the world. UK and particularly London has historically demonstrated growth potential and is believed to maintain this status over the long term.

GFH formed strategic joint ventures towards end of 2017 with Exeter Property Group and Lincoln Property Company in the US, deploying nearly US$100 million in two separate US commercial Real Estate portfolios comprising of office properties in Philadelphia and Chicago. During 2018, these deals were brought to its investors successfully delivering average cash-on-cash return of 9%.

In addition to the above, GFH's sizeable Real Estate portfolio in the US continued its strong performance during 2018 delivering cash-on-cash return for our investors of 8.5% on Industrial Portfolios and 9.5% on Data Center Portfolio.



In July 2018, GFH closed its first technology deal where GFH along with strategic investors acquired 85% stake in the Entertainer. The Entertainer offers destination-specific products and tailored B2B solutions, across 20 destinations in 15 countries and has over 12,000 merchant partners, globally.

GFH is set to grow the assets size under its International Real Estate portfolio beyond the Billion-dollar mark during 2019. In line with GFH's international real estate investment strategy, market focus for further deployments will be US and additionally Europe with a particular focus in UK, Germany and France.

**Private Equity**
With some strong activity and sound performance 2018 was an exciting year for GFH's private equity business line. The Group continued its focus on education, healthcare and technology sectors.

In July 2018, GFH closed its first technology deal where GFH along with strategic investors acquired 85% stake in the Entertainer. The Entertainer is a mobile application of a discount offering Buy One Get One Free ("BOGOF") business where users pay a subscription fee to access offers for well-known dining, leisure, entertainment, beauty, fitness, fashion/retail and travel brands across the Middle East, Asia, Africa and Europe. The Entertainer offers destination-specific products and tailored B2B solutions, across 20 destinations in 15 countries and has over 12,000 merchant partners, globally.

Looking at the Group's education investments, 2018 was another year of significant progress. GFH's Dubai-based Sheffield Private School, is a provider of UK curriculum at the foundation, primary and secondary school levels and with c.1500 international students, continued to go from strength to strength. During 2018, the School succeeded in acquiring "Good" rating for the second consecutive year from Government of Dubai's Knowledge and Human Development Authority ("KHDA") and is very close to achieve "Very Good" rating.

GFH's investment in education sector in Bahrain – AMA Schools and University continued to boast year on year growth and was able to deliver targeted returns to GFH's investors.

As part of GFH's investment strategy to create further value for its investors and shareholders and create positive impact on the quality of global education assets, it has envisioned to create a truly diversified platform of mid-market schools worldwide.

Private education is a global industry worth over USD 1 trillion and GFH is leading the way in helping investors capitalize on this industry's growth via structured investments that can take advantage of key market opportunities through forming BE Holdings, a world class platform of K-12 education assets. Britus Education shall focus on diversification of (i) geographies, (ii) curricula, (iii) fee brackets and (iv) type (greenfield, ramp-up and mature education assets).

GFH's value creation strategy for Britus focuses on four key elements: competitive acquisition multiples, multi-strand value-add, a targeted growth of EBITDA in an achievable time frame, and consolidation of schools into a group which will target a high sale multiple.

Britus is backed by a professional team that has the experience of operating, turning-around and building successful education assets on a cross-border basis, which enables it to have significant depth in terms of talent, global deal pipeline and education expertise.

# Management review
Continued

**Commercial Banking**
The Bank, during 2018, was able to achieve the strategic goals set by the board. This was achieved by implementation of a work structure that studies the market, Invest In available opportunities and offer products and services that are aligned with the clients' expectation. Such enhancement in its products and services was the result of Investing in the Bank's positioning locally and regionally.

A positive Indicator of the Bank's performance this year is the growth of total assets from BD 785.2 million in 2017 to BD 850.9 million in 2018, a growth of 8.4%. Customer Deposits grew to BD 537.3 million in 2018 compared to BD 496.0 million in 2017, a growth of 8.3%. Corporate financing reached BD 301.2 million in 2018 compared to OD 298.7 million in 2017, a growth of 0.8%.

Furthermore, the Bank was able to achieve growth in liquid assets which currently comprises of 30% of Total Assets while the Capital Adequacy Ratio reached 15.9%. This has In turn allowed the Bank to invest the liquidity in prominent Sukuk Investments that are characterised with high yield and low risk. Such Investments resulted in a considerable Increase in the Sukuk portfolio reaching BD 161.3 million in 2018 compared to BD 113.3 million in 2017, a growth of 42.3%. As a result, the Bank, thanks to Allah, in 2018 achieved a net profit attributable to the shareholders of the parent BD 0.659 million. As the Bank continued to execute its strategic plan, the Board and the Management conducted a review to ensure that assets, especially those acquired prior to the new business model reflect realisable and fair value. Based on this review the Board decided to take an amount of BD 6.3 million as provisions for the year ended 31 December 2018, such conservative approach has been taken In order to enhance the Bank's financial positioning and to further support its growth in 2019.

Such results were a factor of the continued expansion of financial activities and efforts of the management that have applied with the organisations' strategic goals. The Bank, throughout this year, worked on improving the Bank's balance sheet by way of booking a strong high-quality asset base In addition to improving the services provided to the Bank's clients. In addition, the Bank adopted a strategy of enhancing the revenues targeting both short- and long-term tenors. This has resulted in the management's focus towards targeting the liquidity and balance sheet towards local and regional projects that are characterised with having strong and adequate collaterals.

**Real Estate Development**
India Projects - Mumbai Economic Development Zone
India Projects are an integrated community comprises of approximately 1,200 acres of land size in two development components located at Navi Mumbai, India. Navi Mumbai has been developed as a planned satellite city situated on the mainland across the harbour. Navi Mumbai is one of the largest planned cities with infrastructure investment.

GFH has entered into Joint Venture arrangements with the largest developers to jointly develop both components of the Project.



Wadhwa Group (Wise City)
Wadhwa Group is one of the largest real estate development and Construction Company. It has been described as instrumental in building world-class structures. It is currently developing residential and commercial projects spread across 15 million square feet. Wise City consists of residential, housing, town centre, medical city, senior living, education, sport facilities, etc. City is underway to be connected Railway lines, Multi-corridor, Harbour-link, etc.

The Wadhwa Group has successfully inaugurated the first Integrated Township Project in NAINA (Navi Mumbai Airport Influence Notified Area) at Panvel under the name of Wadhwa Wise City ("Wise City"). The Wise City is qualified for the Pradhan Mantri Awas Yojana (PMAY) (Urban) Scheme and will open phase one with up to 5,500 affordable residential. The City has received strong market response and demand with more than 900 units sold during the pre-launch phase itself. Most customers were first time home buyers and the project is expected to make Panvel the most sought-after region for affordable housing. Wise City will offer a unique proposition of efficient Studios and 1 and 2-bedroom apartments that will be constructed in various phases. With this launch, an affordable housing stock will be made available at the Wise City. The project has considered all amenities required for common citizens and the township will be wiser and smarter. Hence, more developers will come to this belt. According to recent studies, there is a huge need for affordable housing across metro cities in India where we see a large influx of people coming in search of jobs and a better livelihood..

Adani Group (Mega City)
Adani Group is one of India's leading business houses with revenue over $10 billion. It has grown to become a global integrated infrastructure player with businesses in key industry verticals - resources, logistics, energy and agro. Adani Power Ltd is the largest private thermal power producer in India. Adani Realty is the youngest arm of India's top infrastructure and development conglomerate - Adani Group. Megacity consists of residential, entertainment, hospitality, institutional, retail, sports, logistics, adventure park, studios, light industries, eco resorts, farmhouses, etc.

California Village, Dubailand
California Village is located at Dubailand, forecasted to be one of the major growth corridors in Dubai. It is strategically located to the South of Mohammed Bin Rashid City. Project is in close proximity to the Mall of Arabia and the Theme Park. The project is creating a new residential community that is attractive, vibrant, healthy, and provides a highly desirable living experience. The project features modern facilities with a full range of services and amenities within a pedestrian oriented environment that is focused on interaction and usability for the construction. California Village is one of the high-end mixed-use development and gated community located in Dubailand with more than 200 private villas and 400 branded residence opposite to the well-known IMG Park on Sh. Mohammed Bin Zayed highway in Dubai.

It is worth noting that GFH has also awarded a turkey Engineering, Procurement & Contracting (EPC) Contract to China Machinery and Engineering Corporation ("CEMC") for the construction and financing of up to 85% of its Dubailand based project, California Village, for around US$150 million. The contract will be financed by Chinese banks under an insurance policy to be issued by state government agencies of China. The CEMC is listed on the Hong Kong Stock Exchange with a market capitalization of $15 billion and is owned by the State Government of China.

The project was further progressed in 2017. Following mobilization, which commenced in 2016, site work has moved swiftly ahead. A full marketing strategy has been developed in 2017 and is now being finalized in support of the offering of built units for sale in 2018. Progress continued at site with 75% completion of the infrastructure and 50% of the villas construction on way.

The management assigned to an international architect firm to readdress the Villas size for phase II development within the affection plans and the Multistory building components and sizes based on solid feasibility study and market derives. The current new master plan is under final tuning, and will be submitted to the authorities, upon completion.

**Project Progress**
Harbour Row
The overall progress achieved is 60.30% as of end of December 2018.

On the west side of the project, all floors are casted for all three buildings with blockworks and plaster completed for all floors. Currently MEP and ceiling works are ongoing.

With respect to the east side of Harbour Row, floors have reached final casting with the roof for Building A and the seventh floor slab for Building B. The East Tower is currently pending the Hotel operator for Design input.

The vision for the entire development consist of mixed use Hospitality, Residential and Commercial of luxurious quality.

All west side floors are casted for all three buildings with blockworks and plaster completed for all floors. Currently MEP and ceiling works are ongoing.

In the east side all floors have reached its final casting with the roof for Building A and the seventh floor slab for Building B. The East Tower is currently pending the Hotel operator for Design input.

The vision for the entire development consisting mixed used of Hospitality, residential and Commercial of luxurious quality.

64

# Management review Continued

Villamar
The overall PH 01 progress is 73% as of end of Jan 2019.

The project is scheduled for PH 01 completion by 30th April 2019.

As per the agreed scope of Phase 01, The contractor is working on the internal finishing of Tower B. All the Core and Shell finish of Tower B completed.

The finishing works of the other assets (Tower A, Tower C, Podium, Lifestyle apartments, Sky Villas & Terrace Villas) in Villamar are scheduled for completion in PH 02.

The entire Development will host mixed used components, hospitality leisure, residential and commercial

Al Areen
The Bahrain based Al Areen Project had overcome with insolvency in 2018, All the creditors' outstanding and overdue have been finalized and Settled.

The project company was out of insolvency in April 2018 and resumed all its functions.

The authorized Board of Directors are appointed during the AGM by the shareholders, hence updated all formation with required ministries.

Al Areen Holding Company /GFH have developed a plan to upgrade the development and, as such, Al Areen has completed the landscaping, which includes soft and hard landscaping & landscaping lighting at the main road.

Master plan will be modified and released by CRTKL /YDA

MOU has been signed with an international luxury hotel chain, for the operation of the existing Al Areen Palace and SPA.

An agreement was also reached with them to produce a new concept design for the water park "The Lost Paradise of Dilmun Water Park" along with the adjacent hotel.

Tunis Bay
In North Africa, Tunis Bay project continues to progress with the new phased approach.

Work continued as scheduled on the golf course and sample villas are ready. This is in addition to the commencement of infrastructure works for Phase 1 as a result of the signing of an agreement with a well-known contractor for the infrastructure works for Phases 1 and 2. Additionally, a framework agreement was signed with a consortium of Tunisian investors to develop the mall within Phase 1. The final agreement is to be concluded in the 1st quarter 2018 with works commencing a year later.

Morocco Project
The 'Gateway to Morocco' project similarity continues to progress in strategic execution. Where positive feedback was received from the governmental bodies for the finalization of the Investment Agreement and this has also allowed us to finalize the tender process and shortlist them, we look forward to announcing the awarded works soon. With that and once the final building permit approvals are received we will be able to re-commence with construction works.

**Distributions to Fund Investors**
Throughout 2018, GFH delivered record distributions and dividend payments to investors in line with the Group's progressive dividend policy. Dividends amounting to US$ 28.5 million was paid across all our managed investments to our investors. GFH also focused on exits during the period, and accordingly achieved exits during the year, amounting to US$ 57.7 million from various projects.

**Debts and Liabilities**
The trust that our clients and counterparties have placed in GFH was reinforced in 2018 as the Group was able to raise in excess of USD 700 million in deposits, which has significantly enhanced our liquidity position. In addition, the Group also repaid the entire outstanding amount of its US$200 million Sukuk, which was originally drawn in 2007, and made an early payment of a Wakala facility, reflecting the ability of the Group to make timely repayments of liabilities despite market challenges.

Furthermore, primarily due to the Group's continued efforts on reshaping its business model towards a greater focus on fee generation and lower risk investments, Fitch affirmed GFH's rating at 'B' with Stable Outlook.

02

The corporate governance framework – is focused on assisting GFH to successfully meet its strategic objectives and maintain steady growth whilst remaining fully cognisant of our clients' and shareholders' interests.

# Corporate Governance

# Corporate Governance

## 7.8k Shareholders

As at 31st December 2018, the shareholders register shows that there are 7,845 shareholders who own 3,681,650,441 shares at a nominal value of US$ 0.265 per share.

GFH strives to achieve the highest levels of transparency, accountability and management by adopting and executing the strategy, goals, policies that are aimed at complying with the Bank's regulatory and supervisory responsibilities.

GFH Financial Group BSC is an Islamic investment bank that was established in the Kingdom of Bahrain in 1999. The bank carries on its business activities in accordance with the principles of Islamic Sharia, including financial services, investment and commercial transactions, negotiable financial instruments, real estate, infrastructure, in addition to structured finance, securities and liquidity management designed to achieve profitable returns for investors.

GFH Financial Group was transferred to a Public Shareholding Company in 2004 with its shares being listed on the Bahrain Bourse, Boursa Kuwait and Dubai Financial Market. As a Public Shareholding Company, GFH's corporate governance framework is based on the guidelines issued under the Commercial Companies Law promulgated by Decree No. (21) for the year 2001 ("Companies Law") and the amendments thereto, the regulations of Corporate Governance Code of 2010 issued by Ministry of Industry, Commerce and Tourism (MOICT) and the amendments thereto, the High-Level Controls Module ("HC Module") of the Central Bank of Bahrain (CBB) Rulebook - Volume 2 issued by the CBB and the requirements of Bahrain Bourse ("the Regulations").

*GFH's Corporate Governance Philosophy*
The corporate governance framework – the way in which the Board and management are organized and how they operate in practice – is focused on assisting GFH to successfully meet its strategic objectives and maintain steady growth whilst remaining fully cognisant of our clients' and shareholders' interests.

GFH believes that compliance with corporate governance principles enhances its value through providing a suitable framework for the Board of Directors, board committees and management committee to perform their duties in a manner that serves the interests of the bank and its shareholders. For this reason, GFH strives to achieve the highest levels of transparency, accountability and management by adopting and executing the strategy, goals, policies that are aimed at complying with the Bank's regulatory and supervisory responsibilities.

The Board of Directors are accountable to shareholders for the creation and delivery of strong sustainable financial performance and long-term shareholder value. To achieve this, the Board approves and monitors the Bank's strategy and financial performance, within a framework of sound corporate governance.

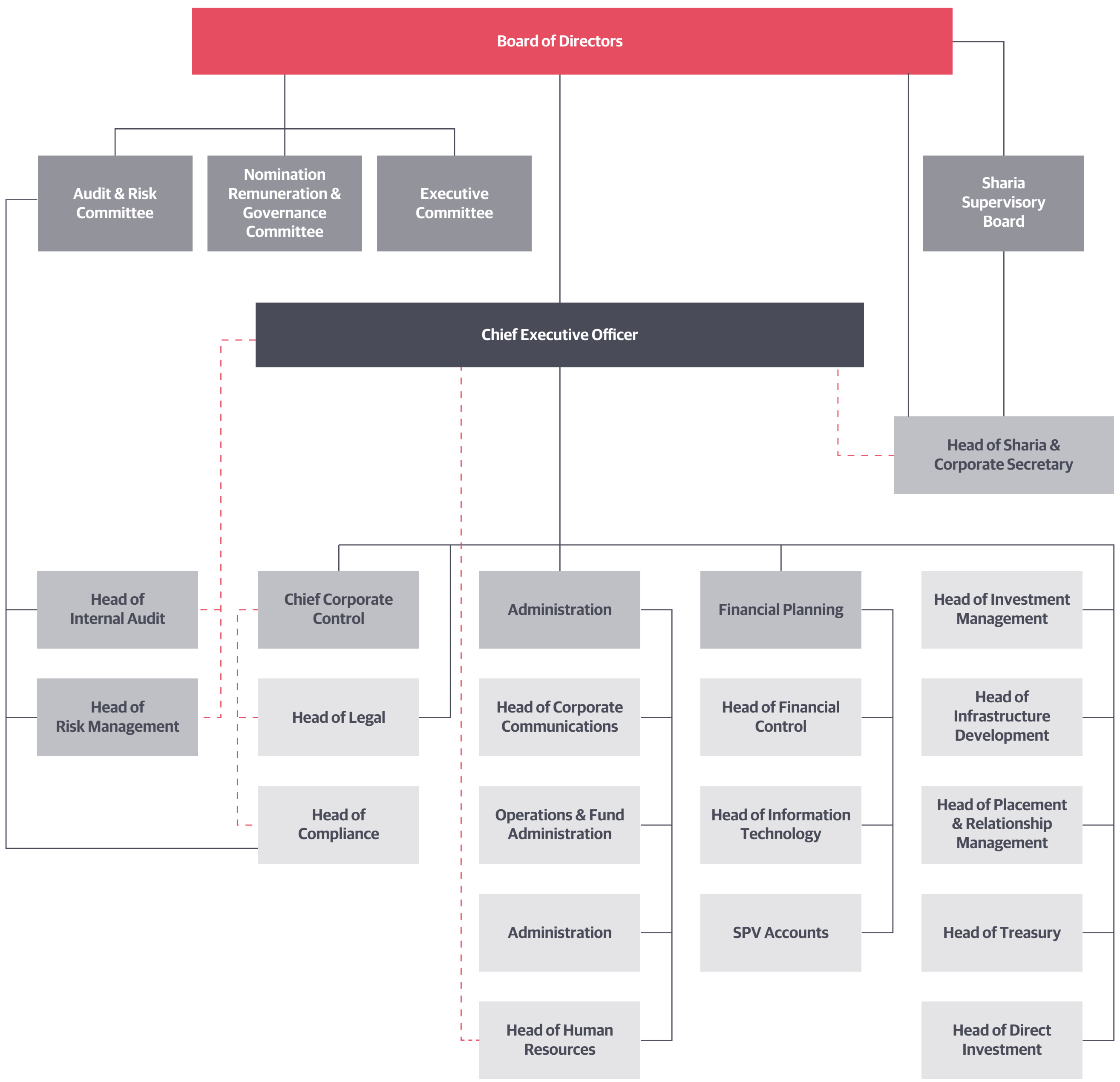
The Chairman of the Board is responsible for leading the Board, ensuring its effectiveness, monitoring the performance of the CEO and maintaining a dialogue with the bank's stakeholders. The Internal Audit, Risk Management, and Compliance & MLRO functions report directly to the Board Audit and Risk Committee.

*Compliance with Regulations (HC Module – CBB Rulebook, Vol.2)*
In 2018, GFH continued the implementation of the Corporate Governance Law and compliance with the requirements of the 'High Level Control Module of the CBB Rulebook (Vol. 2)'.

As per rule HC-A.1.8 and HC-8.2.1 (c) of the HC Module (CBB Rulebook-Vol.2) with reference to the disclosure of the non-compliance events (Comply or Explain Principle), which stipulates the need to elucidate the non-compliance cases and provide clarification on the same in event non-compliance with the rules and guidelines of the HC Module, GFH Financial Group wishes to clarify the following:

- The Chairman of the Board is an Executive Director, in contrary to rule HC 1.4.8.
- The Risk Committee has been merged with the Audit Committee to form one committee called the 'Audit and Risk Committee (ARC)' because this merger poses no conflict of interest; the arrangement is in line with the rule HC-1.8.5.
- The Nomination Committee, Remuneration Committee and the Corporate Governance Committee have been merged accordingly to form one committee called the 'Nomination, Remuneration & Governance Committee (NRGC)' because the merger poses no conflict of interest; the arrangement is in line with the rule HC-1.8.5.
- The NRGC committee does not include a Sharia Scholar (a member of Sharia Supervisory Board) as required under guidance note HC-9.2.4 (b).
- The Board has considered and approved the above arrangements for the remaining term of the Board.
- Two of the Board Members, 'Mr. Kamal Bahamdan' and 'Mr. Amro Al Menhali', were not able to attend the minimum of 75% of the Board Meetings as per rule HC-1.3.4.
  - Mr. Kamal Bahamdan attended 2 out of 4 Board meetings, during the fourth meeting of the Board his resignation was approved.
  - Mr. Amro Almenhali has joined the Board starting from the fifth meeting of the Board; he attended 2 out of 3 Board meetings during 2018.
- The shareholders meeting for FY2018 held on 28th March 2019, was attended by the Chairman of the Board, the Chairman of Board ARC and the CEO (also Board Member), contrary to guidance note HC-7.2.2 which requires all Board Members to attend the meeting.

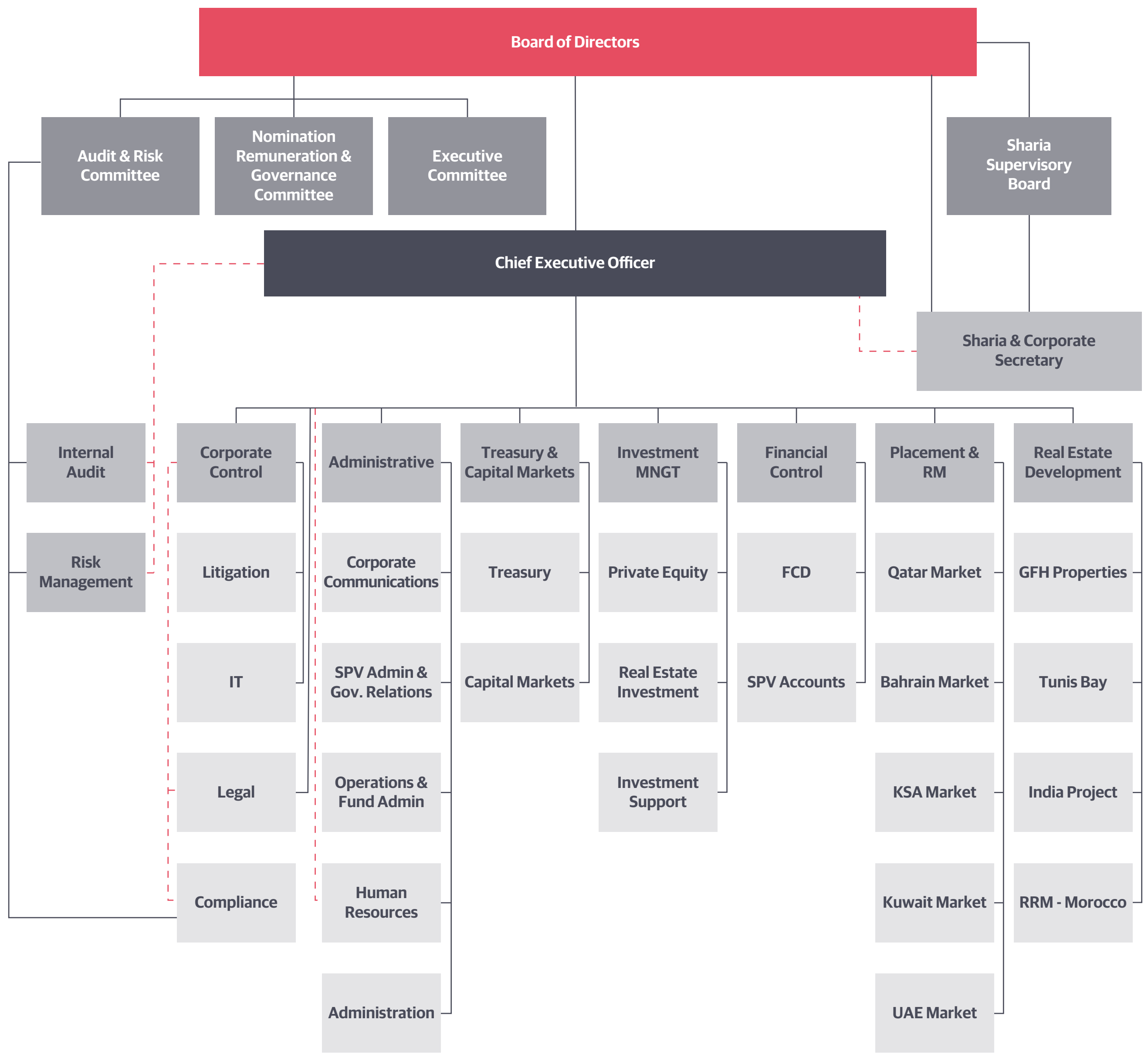
## Organisational Structure
As of December 2018








## Organisational Structure
As of March 2019




**New appointments on the following positions took place on 25th March 2019, upon receiving the Central Bank of Bahrain's approval:*

1. *Salah Sharif – Chief Administrative Officer*
2. *Surya Hariharan – Head of Financial Control*
3. *Imran Sami – Head of Legal*
4. *Mohammed Abdulmalik – Head of Placement Management*
5. *Abesh Chatterjee – Head of Risk Management*
6. *Hussain Abbas – Head of Internal Audit*

**The Management Committee ('MANCOM') currently consists of the following Members: Chief Executive Officer, Chief Investment Management, Chief Administrative Officer, Chief Corporate Control, Head of Placement Management, Head of Treasury, Head of Risk Management and Head of Financial Control.*

*GFH's Corporate Governance framework:*
GFH's Corporate Governance framework remains in line with the High Level Control (HC) Module of the CBB Rulebook (Volume 2) along with the Bahrain's Commercial Companies Laws of 2001. The framework is comprised of GFH's Board of Directors' Charter, Code of Conduct for the Directors, Conflict of Interest Policy, Gift Policy, Public Disclosures & Communication Policy, and Code of Business Ethics & Conduct for the Management & staff members. Furthermore, the Mechanism of Performance Evaluation of Board of Directors, Board Committees and Individual Board members, as well as the other internal policies of the Bank are in line with the regulations and guidelines issued by the CBB and international best practices.

**As part of the disclosure requirements indicated in HC Module issued by the CBB, GFH presents the following facts:**

**A. Ownership of shares**
*A.1. Distribution of shareholdings according to nationality*
As at 31st December 2018, the shareholders Register shows that there are 7,845 shareholders who own 3,681,650,441 shares at a nominal value of US$ 0.265 per share, as follows::

| Nationality | No. of Shareholders | No. of Shares | % of outstanding shares |
|---|---|---|---|
| Bahraini | 592 | 431,090,802 | 11.71 |
| Kuwaiti | 3,456 | 451,252,374 | 12.26 |
| Omani | 38 | 41,773,646 | 1.13 |
| Qatari | 81 | 52,270,505 | 1.42 |
| Saudi | 290 | 247,297,145 | 6.72 |
| Emirati | 1,784 | 2,087,380,837 | 56.70 |
| Others | 1,604 | 370,585,132 | 10.07 |
| **Total** | **7,845** | **3,681,650,441** | **100** |

*A.2. Distribution of ownership according to the percentage of shareholding:*
The below table shows the distribution of ownership according to the percentage of shareholding as at 31st December 2018:

| Particulars | No. of Shareholders | No. of Shares | % of outstanding shares |
|---|---|---|---|
| Less than 1% | 7,834 | 2,521,384,919 | 68.49 |
| 1% to less than 5% | 10 | 971,816,218 | 26.39 |
| 5% to less than 10% | 1 | 188,440,304 | 5.12 |
| 10% to less than 20% | 0 | 0 | 0 |
| 20% to less than 50% | 0 | 0 | 0 |
| **Total** | **7,845** | **3,681,650,441** | **100.000** |





*A.3. Names of shareholders who own 5% or more:*
As of 31st December 2018, the direct and indirect ownership of 'Integrated Capital P.J.S.C.' was 6.05% (222,750,865 shares) of the total outstanding shares of GFH. While the total direct and indirect ownership of 'Abu Dhabi Financial Group (ADFG) and its related entities' were 14.41% (530,692,012 shares) of the total outstanding shares of GFH.

**B. GFH Board of Directors and the Executive Management**
*B.1. Formation of the Board of Directors*
The Board of GFH is composed of ten (10) members. The current Board of GFH will complete its term in March 2020 (i.e., shareholder meeting for financial year-end 2019).

There were few changes within the Board during financial year 2018 which are stated below:

| | | |
|---|---|---|
| I. | Mr. Jassim Mohammed Alseddiqi* | (Executive Director) |
| II. | Sh. Ahmed Khalifa Salman Al Khalifa | (Executive Director) |
| III. | Dr. Ahmed Khalil Al Mutawa* | (Independent Director) |
| IV. | Mr. Mosabah Saif Al Mutairy | (Non-Executive Director) |
| V. | Mr. Bashar Mohammed Al Mutawa | (Independent Director) |
| VI. | Mr. Hisham Ahmed Al Rayes | (Executive Director) |
| VII. | Mr. Kamal Bahamdan* | (Independent Director) |
| VIII. | Mr. Mazen Al Saeed | (Independent Director) |
| IX. | Mr. Rashid Al Kaabi | (Non-Executive Director) |
| X. | Mr. Ghazi Al Hajeri | (Independent Director) |
| XI. | Mr. Mustafa Kheriba* | (Executive Director) |
| XII. | Mr. Amro Al Menhali* | (Independent Director) |

**Mr. Jassim Mohammed Alseddiqi resignation was rejected by the Board in its meeting held on 13th February 2018; accordingly, Mr. Alseddiqi withdrew his resignation on 18th February 2018;*
**Mr. Dr. Ahmed Khalil Al Mutawa submitted his resignation on 18th February 2018, which was accepted by the Board in its meeting held on 25th February 2018;*
**Mr. Mustafa Kheriba was appointed by the shareholders (AGM) in their meeting held on 27th March 2018 as 10th member of GFH's Board.*
**Mr. Kamal Bahamdan resignation was accepted by the Board in its meeting held on 13th May 2018, while Mr. Amro Al Menhal was appointed as a replacement of Mr. Bahamdan on the same meeting.*

As of 31st December 2018, GFH's Board included the following 10 members:

| | | |
|---|---|---|
| I. | Mr. Jassim Mohammed Alseddiqi | (Chairman, Executive Director) |
| II. | Sh. Ahmed Khalifa Salman Al Khalifa | (Vice-Chairman, Executive Director) |
| III. | Mr. Mosabah Saif Al Mutairy | (Non-Executive Director*) |
| IV. | Mr. Bashar Mohammed Al Mutawa | (Independent Director) |
| V. | Mr. Hisham Ahmed Al Rayes | (Executive Director) |
| VI. | Mr. Mazen Al Saeed | (Independent Director) |
| VII. | Mr. Rashid Al Kaabi | (Non-Executive Director) |
| VIII. | Mr. Ghazi Al Hajeri | (Independent Director) |
| IX. | Mr. Mustafa Kheriba | (Executive Director) |
| X. | Mr. Amro Al Menhali | (Independent Director) |

**Mr. Mosabah Saif Al Mutairy membership has been re-classified as an 'Independent Director' starting 2019.*

In compliance with the CBB requirements, which mandates at-least one third of the members of the Board of Directors to be Independent Directors; as of 31st December 2018 the Board was comprised of 'four' Independent Directors which includes the Chairman of the Audit and Risk Committee and the Chairman of the Nomination, Remuneration and Governance Committee.

*B.2. Separation between the position of Chairman and Chief Executive Officer*
In compliance with the CBB requirements, the position of the Chairman and that of the Chief Executive Officer are segregated and there is no amalgamation of responsibilities in these two positions.

*B.3. Function of BOD and responsibilities of the Board Members*
The Articles of Association of GFH Financial Group stipulate the responsibilities of the Chairman and members of the BOD as well as the guidelines of corporate governance with respect to the distribution of responsibilities between the Board of Directors and executive management. The BOD oversees all the business activities in consultation with the executive management team. The BOD also discusses and agrees GFH Financial Group's business strategy. Additionally, the BOD is responsible for risk management and the preparation of consolidated financial statements in accordance with AAOIFI standards and corporate governance issues. The matters which require the approval of the Board includes long term strategic and annual business plan, matters pertaining to corporate governance, acquisition and disposal of investments, exit of projects. This is along with the main role of the Board which is to ensure adherence to the values of GFH Financial Group, including the values set forth in its internal regulations.

When appointed, Board members are provided with the necessary detailed information to enable them to effectively perform their main role of overseeing the strategic, operational, financial, and compliance affairs as well as corporate governance controls in GFH Financial Group. The corporate governance framework allows a member of the BOD to seek independent advice when necessary.

With respect to the channels of communication between the BOD and executive management, the Board members can contact and request information from the executive management at all times.

*B.4. Independence of Board Members*
Independent members represent the majority of board members. To ensure independence of members, all Board members are required to inform the Board of Directors about any changes or additions that occur on their positions and executive functions and may affect the assessment of their independence by the BOD. They should also ensure that their membership of the Board of Directors is not in conflict with any of their other interests and enable them to devote time and attention to the BOD. Before starting any Board meeting, the Chairman of the BOD instructs the Board members not to participate in the vote on the resolutions that may involve a conflict of interest; this is in addition to the annual disclosure submitted by the Board members in compliance with the conflict of interest policy.

The Nomination, Remuneration and Governance Committee of the BOD is responsible, along with its role in the identification, assessment and selection of candidates for membership of the Board of Directors, for the verification of the independence of members through the controls established by the regulations in this regard. In the selection process, the Committee ensures that the executive and non-executive candidates have a wide expertise in different fields of business and support services. Independent members are chosen from different sectors to ensure diversity of views and experiences in the BOD, as the current independent members come from financial, commercial and government sectors.

The following table shows the classification of members of the BOD as at 31st December 2018:

| Classification of members | No. | % of Representation |
|---|---|---|
| Independent | 4 | 40% |
| Non-Executive | 2 | 20% |
| Executive | 4 | 40% |
| **Total** | **10** | **100%** |





*B.5. Letter of Appointment of Board Members*
Upon appointment, the Board Members are required to sign a written agreement (letter of appointment) with GFH. The agreement contains details of the responsibilities and powers of the member as well as the information required by the regulations. Upon appointment, Board members are presented with a comprehensive official introduction specifically designed for this purpose. It includes, among other things, review of the BOD's role in general and the duties and roles of the Board members in particular, in addition to meeting with the executive management, presentation of GFH's strategy, financial performance, risks and legal issues and other related matters.

During the term of membership, a member of the BOD must be fully aware of all aspects of the business, including the Bank's policies relating to corporate governance.

*B.6. The Right of Shareholders to appoint Members of the Board*
Under Article 175 of the Companies Law and Article 27-a of the Articles of Association of the Bank, each shareholder who owns 10% or more of the capital is entitled to appoint his representative in the BOD in proportion to the number of members of the BOD. However, as at 31st December 2018, no single shareholder was holding 10% or more of GFH's total outstanding shares.

*B.7. System for Election and Termination of Directors*
The system for the election and termination of Directors is governed by the Bahrain Commercial Companies Law and GFH's Articles of Association (Articles 34, 39 & 48).

As per the contract signed with the Directors, GFH may terminate the Director's appointment with immediate effect if the Director has:
1) committed any serious or repeated breach or non-observance of his obligations to GFH (which includes an obligation not to breach any fiduciary duties) including those arising under this agreement; or
2) been guilty of any fraud or dishonesty or acted in any manner which, in the opinion of GFH, brings or is likely to bring the Director or GFH into disrepute or is materially adverse to the interests of GFH; or
3) been declared bankrupt or have made an arrangement with or for the benefit of his creditors, or any similar or analogous act or event; or
4) been disqualified from acting as a director for any reason; or
5) been absent without a valid reason for more than four (4) consecutive board meetings; or

Furthermore, in line with the Article 179 of Bahrain's Commercial Companies Law and Article 31 of GFH's Articles of Association, in case of vacancy for one or more Board members, the Board shall elect by a secret ballot or otherwise, a substitute amongst certain number of candidates, proposed by at least two Board members until the first General Meeting is held.

### *B.8. GFH Board Members and their other memberships*

The table below shows the composition of the BOD, the other memberships of the Board member and membership of committees as at 31st December 2018:

| Name and position of Board member | Date of first appointment in BOD/ Re-appointment | Independent/ Non-Executive/ Executive | Representation | Date of resignation/ Term completed | Number of memberships in other boards of Directors | Number of memberships in other boards of Directors in Bahrain | Number of memberships in other boards of Directors of banks in Bahrain | Number of memberships in Board Committees |
|---|---|---|---|---|---|---|---|---|
| Dr. Ahmed Khalil Al-Mutawa* | May 2011/ Mar 2017 | Independent | NA | Feb 2018 | 5 | 2 | 1 | 1 |
| Mosabah Saif Al-Mutairy | Mar 2009/ Mar 2017 | Non-Executive | NA | NA | 8 | - | - | 2 |
| Bashar Mohammed Al-Mutawa | April 2013/ Mar 2017 | Independent | NA | NA | 13 | 12 | - | 1 |
| Hisham Ahmed AlRayes | April 2016/ Mar 2017 | Executive | NA | NA | 24 | 12 | 1 | 1 |
| Jassim Mohammed Alseddiqi | April 2016/ Mar 2017 | Executive | NA | NA | 11 | - | 1 | 1 |
| Sh. Ahmed Khalifa Al Khalifa | Mar 2017 | Executive | NA | NA | 2 | - | - | 1 |
| Kamal Bahamdan* | Mar 2017 | Independent | NA | May 2018 | 15 | - | - | 1 |
| Mazen Al Saeed | Mar 2017 | Independent | NA | NA | 17 | - | - | 1 |
| Rashid Al Kaabi | Mar 2017 | Non-Executive | NA | NA | 6 | - | - | 1 |
| Ghazi Al Hajeri | Mar 2017 | Independent | NA | NA | 2 | - | - | 2 |
| Mustafa Kheriba | Mar 2018 | Executive | NA | NA | 11 | - | 1 | - |
| Amro Al Menhali | May 2018 | Independent | NA | NA | 1 | - | - | 1 |

** Resigned from Board membership during financial year 2018*

*Note: None of the Independent Director had any financial relationship or dealings with GFH Financial Group, with the exception of the relationship arising from being a member of the Board of Directors.*

### *B.9. Ownership of the Members of the Board in GFH shares*

The table below shows the change in the ownership of members of the Board of Directors of the shares of GFH Financial Group, as at 31st December 2018 compared to that of 31st December 2017:

| Member's name | Shares owned as at 31st December 2017 | Shares owned as at 31st December 2018 | Percentage of ownership as at 31st December 2018 |
|---|---|---|---|
| Sh. Ahmed Khalifa Al-Khalifa | NIL | NIL | N/A |
| Mazen Al Saeed | NIL | NIL | N/A |
| Hisham Ahmed AlRayes | 4,444 | 4,444 | 0.00012 |
| Mosabah Saif Al-Mutairy | NIL | NIL | N/A |
| Jassim Mohammed Alseddiqi | 50,000 | 50,000 | 0.00135 |
| Ghazi Al Hajeri | NIL | NIL | N/A |
| Bashar Mohammed Al-Mutawa | NIL | NIL | N/A |
| Rashid Al Kaabi | NIL | NIL | N/A |
| Mustafa Kheriba | NIL | NIL | N/A |
| Amro Al Menhali | NIL | NIL | N/A |
| **Total** | **54,444** | **54,444** | **0.00147%** |





### *B.10. Directors' and Senior Managers' trading of the Bank's shares and distribution of ownership on an individual basis during the year 2018:*

| Name of Board Member | Total no. of shares held as at 31st Dec 2017 | Transactions - within the period 1st Jan - 31st Dec 2018 | | | Total no. of shares held as at 31st Dec 2018 | % of ownership |
|---|---|---|---|---|---|---|
| | | Bought | Sold | Transfer/ Bonus Share | | |
| Mosabah Saif Al Mutairy | - | - | - | - | - | - |
| Bashar Mohamed Al Mutawa | - | - | - | - | - | - |
| Jassim Mohammed AlSeddiqi | 50,000 | - | - | - | 50,000 | 0.00135 |
| Sh. Ahmed Khalifa Al-Khalifa | - | - | - | - | - | - |
| Mazen Al Saeed | - | - | - | - | - | - |
| Ghazi Al Hajeri | - | - | - | - | - | - |
| Mustafa Kheriba | - | - | - | - | - | - |
| Amro Al Menhali | - | - | - | - | - | - |
| Rashid Al Kaabi | - | - | - | - | - | - |

| Name of Management Committee Members | Total no. of shares held as at 31st Dec 2017 (A) | Transactions - within the period 1st Jan - 31st Dec 2018 | | | Total no. of shares held as at 31st Dec 2018 (C) = A + B | % of ownership |
|---|---|---|---|---|---|---|
| | | Purchases** | Sold*** | Net Position (B) | | |
| Hisham Ahmed Alrayes | 14,642,880 | 6,373,404 | 8,509,030 | (2,135,626) | 12,507,254 | 0.3397 |
| Bahaa Al Marzooq* | 3,911,821 | 732,575 | 2,104,302 | (1,371,727) | 2,540,094 | 0.0690 |
| Hammad Younis | 0 | 732,575 | 0 | 732,575 | 732,575 | 0.0199 |
| Ali Dashti* | 0 | 0 | 0 | 0 | 0 | - |
| Mohammed Abdulmalik* | 929,290 | 439,545 | 392,212 | 47,333 | 976,623 | 0.0256 |
| Salah Sharif* | 0 | 146,515 | 0 | 146,515 | 146,515 | 0.0040 |
| Salem Patel * | 1,522,854 | 165,562 | 0 | 165,562 | 1,688,416 | 0.0459 |

** Became member of Management Commiitte ('MANCOM') during the year 2018 only.*

*** Purchases includes the shares bought directly from market or/and the shares awarded/received under Employee Shares Scheme.*

**** Sold includes the shares sold in the market directly or/and sold or transferred via the Employee Shares Scheme.*

*B.11. Meetings of the Board of Director during the year 2018*

The meetings of the Board of Directors and the Board committees are held whenever the need arises, but under the regulations, the BOD should meet at least four times during a single fiscal year. The BOD held seven (7) meetings during 2018. The AGM was held on 27th March 2018.

In addition to official meetings, a number of urgent resolutions were also passed by circulation in 2018 through e-mails to Board members.

As for the agenda of the meetings of the BOD, it is sent to the members at a suitable time before the date of the meeting, to provide the members with all the necessary information, reports and documents for their information and review. The BOD is also notified of all the topics and key events that arise and need approvals. The executive management is responsible for informing the BOD on the performance of GFH in each meeting.

*Dates of Board meetings held during the fiscal year 2018 are as follows:*

I. 13th February 2018
II. 25th February 2018
III. 27th March 2018
IV. 13th May 2018
V. 13th August 2018
VI. 3rd September 2018
VII. 13th November 2018

| Date & location of meeting | Names of Directors present | Names of Directors who participated by phone/video link | Names of Directors not present |
|---|---|---|---|
| **Date:** 13th February 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | 1. Sh. Ahmed Khalifa Al Khalifa<br>2. Dr. Ahmed Khalil Al Mutawa<br>3. Mr. Mazen Al Saeed<br>4. Mr. Mosabah Saif Al Mutairy<br>5. Mr. Ghazi Al Hajeri<br>6. Mr. Hisham Al Rayes<br>7. Mr. Bashar Al Mutawa | 1. Mr. Rashid Al Kaabi<br>2. Mr. Kamal Bahamdan | |
| **Date:** 25th February 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | | 1. Jassim Mohammed Alseddiqi<br>2. Sh. Ahmed Khalifa Al Khalifa<br>3. Mr. Mazen Al Saeed<br>4. Mr. Mosabah Saif Al Mutairy<br>5. Mr. Ghazi Al Hajeri<br>6. Mr. Hisham Al Rayes<br>7. Mr. Bashar Al Mutawa<br>8. Mr. Rashid Al Kaabi<br>9. Mr. Kamal Bahamdan | |
| **Date:** 27th March 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | 1. Jassim Mohammed Alseddiqi<br>2. Sh. Ahmed Khalifa Al Khalifa<br>3. Mr. Mazen Al Saeed<br>4. Mr. Ghazi Al Hajeri<br>5. Mr. Hisham Al Rayes<br>6. Mr. Bashar Al Mutawa | 1. Mr. Rashid Al Kaabi<br>2. Mr. Mosabah Saif Al Mutairy | Mr. Kamal Bahamdan |





| Date & location of meeting | Names of Directors present | Names of Directors who participated by phone/video link | Names of Directors not present |
|---|---|---|---|
| **Date:** 13th May 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | 1. Jassim Mohammed Alseddiqi<br>2. Sh. Ahmed Khalifa Al Khalifa<br>3. Mr. Mazen Al Saeed<br>4. Mr. Ghazi Al Hajeri<br>5. Mr. Hisham Al Rayes<br>6. Mr. Bashar Al Mutawa<br>7. Mr. Mosabah Saif Al Mutairy<br>8. Mr. Mustafa Kheriba | | 1. Mr. Rashid Al Kaabi<br>2. Mr. Kamal Bahamdan |
| **Date:** 13th August 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | | 1. Jassim Mohammed Alseddiqi<br>2. Sh. Ahmed Khalifa Al Khalifa<br>3. Mr. Mazen Al Saeed<br>4. Mr. Ghazi Al Hajeri<br>5. Mr. Hisham Al Rayes<br>6. Mr. Mustafa Kheriba<br>7. Mr. Rashid Al Kaabi | 1. Mr. Bashar Al Mutawa<br>2. Mr. Mosabah Saif Al Mutairy<br>3. Amro Al Menhali |
| **Date:** 3rd September 2018<br>Location: GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | 1. Sh. Ahmed Khalifa Al Khalifa<br>2. Mr. Mazen Al Saeed<br>3. Mr. Ghazi Al Hajeri<br>4. Mr. Hisham Al Rayes<br>5. Mr. Bashar Al Mutawa<br>6. Mr. Mosabah Saif Al Mutairy<br>7. Amro Al Menhali | Mr. Rashid Al Kaabi | 1. Jassim Mohammed Alseddiqi<br>2. Mr. Mustafa Kheriba |
| **Date:** 13th November 2018<br>Location: GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | 1. Jassim Mohammed Alseddiqi<br>2. Sh. Ahmed Khalifa Al Khalifa<br>3. Mr. Mazen Al Saeed<br>4. Mr. Ghazi Al Hajeri<br>5. Mr. Hisham Al Rayes<br>6. Mr. Bashar Al Mutawa<br>7. Mr. Mosabah Saif Al Mutairy<br>8. Amro Al Menhali<br>9. Mr. Mustafa Kheriba | Mr. Rashid Al Kaabi | |

*Note:*

*One of the Board Members, 'Mr. Kamal Bahamdan' was not able to attend the minimum of 75% of the Board Meetings as per rule HC-1.3.4. He attended 2 out of 4 Board meetings, during the fourth meeting of the Board his resignation was approved.*

*Mr. Amro Almenhali has joined the Board starting from the fifth meeting of the Board; he attended 2 out of 3 Board meetings subsequent to his joining.*

*The Chairman of the Board, Mr. Jassim Alseddiqi is an Executive Director, hence he is not an Independent Director as per rule HC-1.4.6*

*B.12. Quorum required for adoption of Board resolutions*

The required quorum for the meetings of the BOD and AGM shall be in accordance with the provisions of the Articles of Association of GFH. The BOD may pass its resolutions by post, e-mail, fax, conference calls, video calls or any other means of audio or video communication pursuant to the provisions of Article 33-e of the Articles of Association of the Bank.

## C. Board Committees

The BOD has established three subordinate committees and has delegated specific powers to each committee as follows:

### *C.1. The Audit and Risk Committee*

The Audit and Risk Committee (ARC) is responsible for following up on the internal and external audit, risk management as well as compliance and anti-money laundering matters.

The Committee must meet at least four times a year; during the fiscal year 2018, the Committee held seven meetings which took place on 31st January, 21st March, 13th May, 26th May, 11th August, 7th October, and 13th November 2018 respectively.

| ARC meeting date & location | ARC members present | ARC members who participated by phone/video link | ARC members not present |
|---|---|---|---|
| **Date:** 31st January 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | 1. Dr. Ahmed Khalil Al Mutawa<br>2. Mr. Bashar Al Mutawa | Mr. Ghazi Al Hajeri | |
| **Date:** 21st March 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | | 1. Mr. Bashar Al Mutawa<br>2. Mr. Ghazi Al Hajeri<br>3. Mr. Mosabah Saif Al Mutairy | |
| **Date:** 13th May 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | 1. Mr. Bashar Al Mutawa<br>2. Mr. Ghazi Al Hajeri<br>3. Mr. Mosabah Saif Al Mutairy | | |
| **Date:** 26th May 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | 1. Mr. Bashar Al Mutawa<br>2. Mr. Ghazi Al Hajeri | Mr. Mosabah Saif Al Mutairy | |
| **Date:** 11th August 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | | 1. Mr. Bashar Al Mutawa<br>2. Mr. Ghazi Al Hajeri<br>3. Mr. Mosabah Saif Al Mutairy | |
| **Date:** 7th October 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | 1. Mr. Bashar Al Mutawa<br>2. Mr. Ghazi Al Hajeri<br>3. Mr. Mosabah Saif Al Mutairy | | |
| **Date:** 13th November 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | 1. Mr. Bashar Al Mutawa<br>2. Mr. Mosabah Saif Al Mutairy | Mr. Ghazi Al Hajeri | |





### *C.2. Board Executive Committee (EXCOM)*

The Board Executive Committee (EXCOM) responsibility is to approve the investment and funding requests, prepare the investment policies and controls, determine the credit limits of the Bank, manage assets and liabilities, organize banking relationships, as well as oversee the items that are not included in the budget.

The Committee must meet at least two times a year. The Committee met five times during the fiscal year 2018 i.e., 21st March, 29th April, 13th May, 3rd June, and 13th November 2018 respectively.

| EXCOM Meeting date & location | EXCOM members present | EXCOM members who participated by phone/ video link | EXCOM members not present |
|---|---|---|---|
| **Date:** 21st March 2018<br>**Location:** Four Seasons<br>Abu Dhabi UAE | 1. Jassim Mohammed Al Alseddiqi<br>2. Sh. Ahmed Khalifa Al-Khalifa<br>3. Hisham AlRayes<br>4. Mazen Al Saeed | | |
| **Date:** 29th April 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | | 1. Jassim Mohammed Al Alseddiqi<br>2. Sh. Ahmed Khalifa Al-Khalifa<br>3. Hisham AlRayes<br>4. Mazen Al Saeed | |
| **Date:** 13th May 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | 1. Jassim Mohammed Al Alseddiqi<br>2. Sh. Ahmed Khalifa Al-Khalifa<br>3. Hisham AlRayes<br>4. Mazen Al Saeed | | |
| **Date:** 3rd June 2018<br>**Location:** Al Areen Resort & SPA<br>Manama, Bahrain | 1. Jassim Mohammed Al Alseddiqi<br>2. Sh. Ahmed Khalifa Al-Khalifa<br>3. Hisham AlRayes<br>4. Mazen Al Saeed | | |
| **Date:** 13th November 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | 1. Sh. Ahmed Khalifa Al-Khalifa<br>2. Hisham AlRayes<br>3. Mazen Al Saeed | | Jassim Mohammed Al Alseddiqi |

### *C.3. Nomination, Remuneration & Governance Committee*

The Nomination, Remuneration & Governance Committee ("NRGC") is responsible for recruitment, rewards, incentive compensation of employees and the preparation of internal policies to manage human resources and other administrative matters. It is also responsible for overseeing the governance framework of GFH Financial Group.

The Committee must meet at least two times a year. The Committee met two times during the fiscal year 2018 i.e. 21st January and 27th November 2018 respectively.

| NRGC Meeting date & location | NRGC members present | NRGC members who participated by phone/ video link | NRGC members not present |
|---|---|---|---|
| **Date:** 21st January 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | Mr. Mosabah Saif Al Mutairy | 1. Mr. Ghazi Al Hajeri<br>2. Mr. Rashid Al Kaabi<br>3. Mr. Kamal Bahamdan | |
| **Date:** 27th November 2018<br>**Location:** GFH Financial Group<br>Bahrain Financial Harbour East Tower<br>37th Floor, Manama, Kingdom of Bahrain | 1. Mr. Ghazi Al Hajeri<br>2. Mosabah Saif Al Mutairy<br>3. Amro Al Menhali | | |

**D. Audit fees and other services provided by the external auditor**

Details will be available for the shareholders upon an official written request to GFH provided that such matters shall not affect the interests of the bank or its competitiveness in the market.

**E. Other topics**

*E.1 Remuneration of the Board of Directors and Executive Management*

Remuneration of the Board of Directors is recommended to the Board of Directors by the Nomination, Remuneration & Governance Committee and the Board of Directors then makes the recommendation to the shareholders at the annual general meeting.

The Board of Directors' remuneration takes into consideration the performance of the Bank as well as an assessment of compliance of individual members with their performance agreement and individual responsibilities. During the year 2018, the Board was paid fees as stated in note 27 of consolidated financial statements.

Executive Management is entitled to a fixed remuneration as per their contractual agreements, and any other performance-related incentives/ bonuses must be approved by the Board.

Refer to note 27 (Key management personnel) of the consolidated financial statements for details of the remuneration to Board of Directors and Executive Management.

During 2018, the total remuneration payable to Sharia Supervisory Board was US$ 363,000/-.

*E.2 Continuous development of the Board and Board Committees*

The Board approved Charter of the Board of Directors has been prepared to serve as a reference point for Board activities. The Charter outlines the demarcation of the roles, functions, responsibilities and powers of the Board, various Board committees of GFH and matters reserved for final decision–making or pre approval by the Board and the policies and practices of the Board in respect of matters such as conflicts of interest and convening of Board meetings.

The Board Charter sets up a detailed Board Training guide which provides a framework for induction/orientation of new Board members. The new Board of Directors are provided with a presentation pack containing overview/highlights of GFH.

All the members of the Board at the time of appointment should sign a Directors contract, which contains the terms of the appointment, duties and responsibilities of the members, membership and time commitment, conflicts of interest, resignation and termination, confidentiality of information, requirement for the completion of professional development trainings and other details which the members have to abide by during their tenure of being member of the Board.

*E.3 Board's Performance Evaluation*

At GFH, a comprehensive Board Performance Evaluation Pack (framework for the annual self-assessment process by the Board, the Board Committees and Individual Directors) is in place which is in line with the CBB guidelines (HC Module).

The evaluation is to be used to assess Board effectiveness and support in identifying the need for:

- A revised mix of skills / experience on the Board.
- Board training and/or professional support
- Replacement of Individual Directors whose contribution is deemed inadequate.

*The Board Performance Evaluation Framework is based on the following - Principles:*

- The Board shall, through the Nomination, Remuneration and Governance Committee (NRGC), undertake a formal and rigorous annual evaluation of its own performance and that of its Committees and Individual Directors.
- The Chairman will act on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of the Board. The Chairman of the NRGC will be responsible for the performance evaluation of the Chairman, taking into account the views of other Board Members.
- The evaluation process will be used constructively as a mechanism to improve Board effectiveness, maximize strengths and tackle weaknesses.
- The results of Board evaluation will be shared with the Board as a whole whilst the results of individual assessments will remain confidential between the Chairman and the Director concerned.
- Key results indicators, derived from the strategic plans and objectives, should be used to measure the Board's performance.





*The Board Performance Evaluation Framework is based on the following - Methodology:*

1) Each Board Member is required to complete the 'Board Performance Evaluation Form' and the "Individual Director's Self Evaluation Form".
2) The Chairman of the Board will also individually evaluate each of the Board Members.
3) NRGC will collate the ratings of the Board (Board Performance Evaluation Form) done by each of the Board Member accordingly; in order to arrive to mean results.
4) Each Committee Members will also perform rating of their respective committee(s).
5) Similarly, NRGC will collate the ratings of each of the Committee (NRGC/BIC/ARC); in order to arrive to mean results of that specific committee.

*E.4. Transactions Requiring Board Approval*

As part of their central leadership and designated authority, the Board of Directors discuss and approve matters pertaining to Strategic Planning, Business Plan, Policies and Procedures, Annual Report, Financial Statements, Appointment of External Auditors and Strategic Partnerships. Furthermore, other matters such as strategic decisions, investment fund proposals, provisions and write-off limits or credit and exposure limits may require the Board's approval as per the internal designated authority limits.

*E.5. Transactions with Related Parties*

Details of transactions with related parties are indicated in detail in Note 27 of the consolidated financial statements for the fiscal year ended 31st December, 2018. All related party transactions are approved by the Board of Directors and disclosed to the shareholders in the Annual General Meeting.

The details of the related parties' transactions were disclosed to the shareholders during the AGM meeting.

*E.6. Approval process for Connected Counter Party Transactions*

All connected counter party exposures (within the CBB defined limits) will be approved by the appropriate approving authority as per the Delegate Authority Limit (DAL). Where the approving authority as per DAL is connected / interested, the approval authority shall move to the next level.

In determining whether to approve a Connected Counter Party Transaction, the requesting and approving authority will consider, among other factors, the following factors to the extent relevant to the Connected Counter Party Transaction:

- Exposures to connected counterparties may be justified only when undertaken for the clear commercial advantage of the bank, when negotiated and agreed on an arm's length basis, and when included in the policy statement agreed with the Central Bank.
- No Islamic facilities provided by a bank to its own external auditors shall be permitted (External auditors include firm/ partnership, the partners, the directors and managers of the audit firm). In addition, unless provided for in the contract, off-balance sheet restricted investment accounts will not be permitted to participate in on-balance sheet corporate funding and vice versa and movement within restricted investment accounts is not permitted without the Central Bank's prior written approval.
- Whether the terms of the Connected Counter Party Transaction are fair to the Bank and on the same basis as would apply if the transaction did not involve a Connected Counter Party;
- Whether there are business reasons for the Bank to enter into the Connected Counter Party Transaction;
- Whether the Connected Counter Party Transaction would impair the independence of an outside director and;
- Whether the Connected Counter Party Transaction would present an improper conflict of interests for any director or executive officer of the Bank, taking into account the size of the transaction, the overall financial position of the director, executive officer or Connected Counter Party, the direct or indirect nature of the director's, executive officer's or Connected Party's interest in the transaction and the ongoing nature of any proposed relationship, and any other factors the BARC deems relevant.
- Shareholders with significant ownership of the bank's capital (i.e. 10% and above) are not allowed to obtain financing facilities from the bank (i.e. a 0% limit), however smaller shareholders will be subject to the normal exposure limits outlined in section CM-4.4.5. Directors who are also shareholders (or their appointed board representatives) with significant ownership (i.e. above 10% or above) are subject to the 0% limit mentioned above.
- The Central Bank's prior written consent should be obtained for any credit facilities provided to an employee where the amount of such facility, either singly or when added to an existing facility/existing facilities outstanding to that employee at that date, would be equal to or in excess of BD 100,000 (Bahrain Dinars One Hundred Thousand), or its equivalent in foreign currency. Banks must notify the Central Bank in writing of any senior employee who fails to discharge his repayment obligations.

Reciprocal cross-holdings of capital between a bank and its "controllers", which artificially inflate the capital of licensee concerned, are not permitted. Any cross-holdings that occur due to acquisitions or takeovers must be deducted from the concerned bank's capital. Any member of the Board who has an interest in the transaction under discussion will abstain from voting on the approval of the Connected Counter Party Transaction.

*E.7. Ownership of shares by government entities*
The below listed Government entities owns shares in GFH:

| Authority Name | Government | Shares Owned | % of Shares Owned |
|---|---|---|---|
| General Pension And Social Security Authority | Bahrain | 28,450,831 | 0.77% |
| The Royal Guard Of Oman Pension Fund | Oman | 15,953,374 | 0.43% |
| Investment Corporation Of Dubai | Dubai | 11,051,394 | 0.3% |
| Diwan Of Royal Court Pension Fund | Oman | 5,525,697 | 0.15% |
| The Public Authority For Minors Affairs | Kuwait | 4,564,984 | 0.12% |
| Civil Service Employees Pension Fund | Oman | 1,115,586 | 0.03% |

*E.8. Review of internal control and processes*
Internal control is a process affected by the Board of Directors, senior management and all levels of personnel. It is not solely a procedure or policy that is performed at a certain point in time, but rather it is continually operating at all levels within the Bank. The Board of Directors and senior management are responsible for establishing the appropriate culture to facilitate an effective internal control process and for monitoring its effectiveness on an ongoing basis; however, each individual within an organization must participate in the process.

The main objectives of the internal control process can be categorized as follows:
1. Efficiency and effectiveness of activities (performance objectives);
2. Reliability, completeness and timeliness of financial and management information (information objectives); and
3. Compliance with applicable laws and regulations (compliance objectives).

Also, the internal control system of the Bank consists of five (5) interrelated elements:
I. Management oversight and the control culture;
II. Risk recognition and assessment;
III. Control activities and segregation of duties;
IV. Information and communication; and
V. Monitoring activities and correcting deficiencies.

*E.9. GFH's Client Charter*
In line with the CBB requirements, GFH has developed a client's charter which outlines the commitments made by GFH in respect of the quality of services and products delivered to its clients and shareholders. The client's charter, which is available on the bank's website, is an assurance that services provided by the Bank will comply with quality standards. Generally, quality standards are standards that will fulfil clients' and shareholders' needs and expectations.

The client charter also incorporates GFH's Complaints handling procedures and encourages the clients and its shareholders to report any alleged wrongful conduct, malpractice or an improper/ unethical behaviour of an employee of the bank.

*E.9.1: Dealing with Complaints*
GFH is committed to providing its clients with the highest standard of service. However, should a client complain because he/she feels GFH has failed to deliver what it has promised, GFH will do everything possible to ensure that such a complaint is dealt with fairly, promptly and effectively. The information provided here will show you how to:
i. Make a complaint.
ii. Escalate if you are not satisfied with the response provided by GFH in response to your complaint.
iii. Take further action if you are still dissatisfied with the outcome.





- *Mechanism for submitting Complaints:*
  The complaint must be in writing and should be addressed to the Investors' Relations Department and must be marked to the GFH's Complaint Handling Officer.

  In compliance with the directives of the Central Bank of Bahrain, GFH has appointed a Complaints Handling Officer, who is responsible for ensuring that the client complaint is acknowledged, properly investigated, and that the Bank's response is adequately communicated to the client.

- *Options for submitting Complaint:*
  a) Hand delivery to GFH's Office (reception) located at 28th Floor, East Tower, Bahrain Financial Harbour, Manama
  b) Via Fax to the following number +973 17 540006
  c) Courier or post to the following address:

  *Complaint Handling Officer*
  *GFH Financial Group B.S.C.*
  *29th Floor, East Tower*
  *Bahrain Financial Harbour*
  *PO Box 10006*
  *Manama, Kingdom of Bahrain*

  d) Or scan and email the written complaint to: iservice@gfh.com

- *What happens once your complaint is submitted?*
  a) Once a client complaint has been submitted, we will acknowledge within three (3) business days.
  b) The client complaint will be referred to the concerned person/department which will investigate it thoroughly and a written response detailing the outcome of our investigation and our decision shall be provided within four (4) weeks of receiving the complaint. In the unlikely event that the complaint is not answered within the timeframe mentioned in point (b), we will write the reasons why there has been a delay and the additional action that we will take including when we anticipate to have concluded our investigation.
  c) In an event that the complaint is not resolved or that the client is not satisfied with the solution provided by us, he/she has the right to escalate the complaint to the 'Head of Compliance' of GFH. The escalation will be acknowledged as per (a) above and a written answer shall be provided within four (4) weeks from the date of escalation.
  d) After receiving the final response to the escalated complaint, and if the client is still not satisfied, he/she can write directly to the Compliance Directorate of the Central Bank of Bahrain or he/she can submit the case through the "Complaint form" available on the Central Bank of Bahrain website www.cbb.gov.bh, within 30 calendar days from the date of receipt of our final response.

*E.9.2. Whistle-blowing*
- *Report an Incident*
  If the client have observed any alleged wrongful conduct, malpractice or an improper/ unethical behaviour of an employee of the bank, he/she is encouraged to report the incident to the Bank through the following means:
  – Report to 'Head of Compliance' or 'Head of Internal Audit' by sending an email at whistleblow@gfh.com; alternatively, send a letter by post at the below address:

  *Head of Compliance / Head of Internal Audit*
  *GFH Financial Group B.S.C, 30h Floor, East Tower*
  *Bahrain Financial Harbour, P.O. Box 10006,*
  *Manama, Kingdom of Bahrain*

- *Protection Rights for Whistleblowers*
  a) GFH is committed to the protection of Whistleblowers against potential actions that may be taken in reprisal for making the protected disclosure.
  b) The Whistleblower's identity, the nature of the report, and the suspected person's identity are strictly confidential.
  c) Retaliation against an individual, who in good faith, had made a complaint, disclosed information relating to a complaint or otherwise participated in an investigation relating to a complaint is prohibited regardless of the outcome of the investigation.
  d) The Board Audit & Risk Committee of the bank will be responsible to assess the incident reported and will decide the course of action.

*E.10. Details of penalties paid*
In 2018, financial penalties amounting Bahraini Dinar ("BD') 8,600 were imposed by the Central Bank of Bahrain, due to late submission of the date sensitive requirements and the absence of prior approval for establishment of SPVs. Also, a financial penalty of Emirati Dirham ("AED") 10,000 was imposed by Securities & Commodities Authority, UAE for delay in submission of XBRL return.

*E.11. Systems and controls for compliance with Sharia and AAOIFI standards*
In pursuance with the provisions of its Articles of Association, GFH Financial Group has always carried out its banking activities in compliance with Islamic Sharia principles that constitute an integral part of the entire policies of the Bank. Tasks managed by Sharia Department of GFH include the followings:

1. Ensuring that the necessary approvals of the SSB have been obtained for each project.
2. Ensuring compliance of projects with the Sharia provisions indicated in the Prospectus and the approved structure of the project.
3. Reviewing the financial statements and other issues related to the projects and ensuring that they are in compliance with the Sharia principles.
4. Ensuring that the projects are in compliance with Fatwas and recommendations of the SSB of GFH and the other Sharia Boards, if any.
5. Ensuring that the approval of the SSB is obtained for each financial instrument (such as sale transactions, financing, currency conversion, Sukuks, deposits, etc.), including the approved and concluded contracts and agreements.
6. Reviewing the financial statement to ensure full compliance with the Sharia principles and the requirements and provisions of the Accounting & Auditing Organization for Islamic Financial Institutions (AAOIFI).
7. Ensuring that all the products and the structures thereof are in compliance with AAOIFI's standards.

For earnings prohibited by Sharia, please refer note 4(z) and note 31 of the consolidated financial statements for the fiscal year ended 31st December 2018.

*E.12. Board Code of Conduct*
The Board has approved a code of conduct for all staff of the Bank and the Board members. The Code includes guidance on dealing with conflict of interests, insider trading, key person dealing, receiving gifts, system & controls framework, confidentiality etc. It also binds the Directors, Executive Management and staff to the highest standard of professionalism and diligence on discharging their duties. All Board members and senior management of the Bank have affirmed compliance with the Code of Conduct. Board members are excluded from dealings in matters related to an external entity where they hold a position. Any breach of the code is reported to the Board NRGC by the Corporate Secretary, Head of Compliance or the Head of Human Resources. The Board NRGC is responsible to take the necessary action.

*E.13. Board Conflict of Interest*
Any conflict of interest that might arise from the Board members is governed by the Board Conflict of Interest Policy. Each Board member is required to annually disclose any potential conflict of interest that might arise during the term of their membership. Any transaction that has occurred during their term as a Board member must be disclosed to the Board through the Conflict of Interest Reporting Form. Any conflict of interest arising from any Board member must be ratified by the Board, and the respective Board member will be refrained from voting on that matter.

*E.14. Remuneration related disclosures*
The Bank's total compensation approach, which includes the variable remuneration policy, sets out the Banks's policy on remuneration for Directors and senior management and the key factors that are taken into account in setting the policy.

The key features of the proposed remuneration framework are summarised below.

**Remuneration strategy**
It is the Bank's basic compensation philosophy to provide a competitive level of total compensation to attract and retain qualified and competent employees. The Bank's variable remuneration policy will be driven primarily by a performance based culture that aligns employee interests with those of the shareholders of the Bank. The variable remuneration policy helps ensure effective alignment of remuneration with prudent risk-taking by senior management in the conduct of business.

A robust and effective governance framework ensures that the Bank operates within clear parameters of its compensation strategy and policy. All compensation matters, and overall compliance with regulatory requirements, are overseen by the Nomination and Remuneration Committee of the Board (NRGC).





The quality and long-term commitment of all of our employees is fundamental to our success. We therefore aim to attract, retain and motivate the very best people who are committed to maintaining a career with the Bank, and who will perform their role in the long-term interests of our shareholders. The Bank's reward package is comprised of the following key elements:
1. fixed pay;
2. benefits;
3. annual performance bonus;
4. remuneration for senior management from participation in boards of investee entities; and
5. the long term performance incentive plan

The Bank's remuneration policy in particular, considers the role of each employee and has set guidance on whether an employee is a Material Risk Taker and/ or an Approved Person in a business line, control or support function. An Approved Person is an employee whose appointment requires prior regulatory approval because of the significance of the role within the Bank and an employee is considered a Material Risk Taker if they are the Head of a significant business line or any individuals within their control who has a material impact on the Bank's risk profile.

In order to ensure alignment between what we pay our people and our business strategy, we assess individual performance against annual and long-term financial and non-financial objectives summarized in our performance management system. This assessment also takes into account adherence to the Bank's values, risks and compliance measures and above all integrity. Altogether, performance is therefore judged not only on what is achieved over the short and long-term but also importantly on how it is achieved, as the NRGC believes the latter contributes to the long-term sustainability of the business.

**NRGC role and focus**
The NRGC has oversight of all reward policies for the Bank's employees. The NRGC is the supervisory and governing body for compensation policy, practices and plans. It is responsible for determining, reviewing and proposing variable remuneration policy for approval by the Board. It is responsible for setting the principles and governance framework for all compensation decisions. The NRGC ensures that all persons must be remunerated fairly and responsibly. The remuneration policy is reviewed on a periodic basis to reflect changes in market practices, the business plan and risk profile of the Bank.

The responsibilities of the NRGC with regards to the Bank's variable remuneration policy, as stated in its mandate, include but are not limited to, the following:-
a) Review the remuneration policies for the approved persons and material risk-takers, which must be consistent with GFH's corporate values and strategy.

b) The committee should be responsible for retaining and overseeing outside consultants or firms for the purpose of reviewing the remuneration of approved persons and material risk-takers, administering remuneration plans, or related matters.

c) Ensure that the remuneration of approved persons and material risk-takers is sufficient enough to attracts and retain persons of the quality needed to run the bank successfully, but that bank avoids paying more than is necessary for that purpose.

d) Approve the individual remuneration amounts, packages and total compensation for each approved person and material risk-taker and make recommendations to the Board of the total variable remuneration (bonus pool) to be distributed, taking account the total remuneration, including salaries, fees, expenses, bonuses and other employee benefits.

e) Evaluate the performance of approved persons and material risk-takers in light of the bank's corporate goals, agreed strategy, objectives and business plans.

f) The committee shall be responsible to the Board for the overview of any employee benefit trust (EBT) or similar arrangements adopted for the purpose of administering the deferred incentive arrangements (including share schemes) of the Bank.

g) Ensure that variable remuneration for material risk-takers forms a substantial part of the total remuneration of approved persons and material risk-takers (other than the risk management, internal audit, operations, financial controls, internal Sharia review/audit, AML and compliance functions personnel.

h) Ensure that for approved persons in risk management, internal audit, operations, financial controls, internal Sharia review/audit, AML and compliance functions the mix of fixed and variable remuneration is weighted in favour of fixed remuneration.

i) Ensure that the system includes effective controls including stress testing and back testing results of the remuneration policy and that the system's practical operation is regularly reviewed for compliance with regulations, internal policies and bank procedures.

j) Review remuneration outcomes, risk measurements and risk outcomes regularly for consistency with the Board's approved risk appetite, for submission for the Board for its review.

k) Review cases where any ex-ante risk adjustments are to be used to take into account severe but plausible scenarios to the variable remuneration as per the Bank's variable remuneration policy.

l) Review cases where the bonus is diminished by exercise of Malus and Clawback adjustments.

m) Question payouts for income that cannot be realized or whose likelihood of realization remains uncertain at the time of payout.

n) Ensure appropriate compliance mechanisms are in place to ensure that employees commit themselves to not using personal hedging strategies or remuneration-and liability-related insurance to undermine the risk alignment affects embedded in their remuneration arrangements.

As outlined in the Corporate Governance section of the Annual Report, the Board is satisfied that all non-executive Directors are independent including the NRGC members. The NRGC comprises of the following members:

| NRGC member name | Appointment date | Appointment Resignation / Restructured date | Number of meetings attended 2017 | |
|---|---|---|---|---|
| | | | 2018 | 2017 |
| Khaled Mohamed Al Khazraji | 22 April 2014 | 13 May 2018 | N/A | 2 out of 2 |
| Bashar Mohamed AlMutawa | 22 April 2014 | 13 May 2018 | N/A | 2 out of 2 |
| Kamal Bahamdan | 25 April 2017 | 13 May 2018 | 1 out of 2 | 1 out of 2 |
| Ghazi AlHajeri | 25 April 2017 | | 2 out of 2 | 2 put of 2 |
| Mosabah Saif AlMutairi | 25 April 2017 | | 2 out of 2 | 2 out of 2 |
| Rashid AlKabbi | 25 April 2017 | 13 May 2018 | N/A | 2 out of 2 |
| Amro Almenhali | 13 May 2018 | | 1 out of 1 | N/A |

The aggregate remuneration paid to NRGC members during the year in the form of sitting fees amounted to USD 7K (2017: USD 4K).

**Scope of application of the remuneration policy**
The principles of this remuneration policy apply on a group-wide basis. However, application of deferral requirements and issue of non-cash instruments for each subsidiary of the Bank will be determined by applicable local regulations and market norms. Currently, deferral arrangements are applicable only to Bahrain domiciled banking entities within the Group.

**Board remuneration**
The Bank will determine board remuneration in line with the provisions of Article 188 of the Bahrain Commercial Companies Law, 2001. The Board of Directors' remuneration will be capped so that variable remuneration in any financial year (sitting fees is not part of variable remuneration) does not exceed 10% of the Bank's net profit, after all required deductions outlined in Article 188 have been made. Remuneration of non-executive directors will not include performance-related elements such as grants of shares, share options or other deferred stock-related incentive schemes, bonuses or pension benefits. Board remuneration is subject to approval of the shareholders in the annual general meeting.

**Variable remuneration for staff**
Variable remuneration is performance related and consists primarily of the annual performance bonus award. As a part of our staff's variable remuneration, the annual bonus rewards delivery of operational and financial targets set each year, the individual performance of the employees in achieving those targets, and their contribution to delivering the Bank's strategic objectives.

The Bank has adopted a Board approved framework to develop a transparent link between variable remuneration and performance. The framework is designed on the basis of meeting both satisfactory financial performance and the achievement of other non-financial factors, that will, all other things being equal, deliver a target bonus pool for employees, prior to consideration of any allocation to business lines and





employees individually. In the framework adopted for determining the variable remuneration pool, the NRGC aims to balance the distribution of the Bank's profits between shareholders and employees.

Key performance metrics at the bank level include a combination of short-term and long-term measures and include profitability, solvency, liquidity, risk diversification, strategy implementation and growth indicators. The performance management process ensures that all goals are appropriately cascaded down to respective business units and employees.

In determining the quantum of variable remuneration, the Bank has implemented a hybrid model by defining a Top Down (profit based) bonus pool funding for control and support staff and bottom-up (maximum earning opportunity based) pools for Risk Takers. The total bonus pool is capped at a percentage of profit before being assessed for risk. This approach is a starting position and the NRGC may choose to implement a discretionary award for a given year based on affordability for the Bank and its assessment of the Bank's current and future resource requirements. The bonus pool is adjusted to take account of risk via the use of risk-adjusted measures (including forward-looking considerations).

The NRGC carefully evaluates practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain. NRGC demonstrates that its decisions are consistent with an assessment of the Bank's financial condition and future prospects. A special pool is also considered for recoveries made against any legacy investments and legal cases and is approved on a case-by-case basis by the Board of Directors.

The Bank uses a formalized and transparent process to adjust the bonus pool for quality of earnings. If the quality of earnings is not strong, the profit base could be adjusted based on the discretion of the NRGC.

For the overall Bank to have any funding for distribution of a bonus pool, threshold financial targets have to be achieved. The performance measures ensure that total variable remuneration is generally, considerably contracted where subdued or negative financial performance of the Bank occurs. Furthermore, the target bonus pool as determined above is subject to risk adjustments in line with the risk assessment and linkage framework.

*Remuneration of control and support functions*
The remuneration level of staff in the control and support functions allows the Bank to employ qualified and experienced personnel in these functions. The Bank ensures that the mix of fixed and variable remuneration for control and support function personnel should be weighted in favor of fixed remuneration. In exceptional cases, the approval of the NRGC shall be obtained. The variable remuneration of control functions is to be based on function-specific objectives and is not be determined by the financial performance of the business areas they monitor.

The Bank's performance management system plays a major role in deciding the performance of the support and control units on the basis of the objectives set for them. Such objectives are more focused on non-financial targets that include risk, control, compliance and ethical considerations as well as the market and regulatory environment apart from value adding tasks which are specific to each unit.

*Variable compensation for business units*
The variable remuneration of the business units is primarily determined by key performance objectives set through the performance management system of the Bank. Such objectives contain financial and non-financial targets, including risk control, compliance and ethical considerations as well as market and regulatory requirements. The consideration of risk assessments in the performance evaluation of individuals ensures that any two employees who generate the same short-run profits but take different amounts of risk on behalf of the bank are treated differently by the remuneration system.

*Risk assessment framework*
The purpose of risk linkages is to align variable remuneration to the risk profile of the Bank. In its endeavour to do so, the Bank considers both quantitative measures and qualitative measures in the risk assessment process. Both quantitative measures and human judgment play a role in determining any risk adjustments. The risk assessment process encompasses the need to ensure that the remuneration policy as designed reduces employees' incentives to take excessive and undue risks, is symmetrical with risk outcomes and delivers an appropriate mix of remuneration that is risk aligned.

The Bank's NRGC considers whether the variable remuneration policy is in line with the Bank's risk profile and ensures that through the Bank's ex-ante and ex-post risk assessment framework and processes, remuneration practices where potential future revenues whose timing and likelihood remain uncertain are carefully evaluated.

Risk adjustments take into account for all types of risk, including intangible and other risks such as reputation risk, liquidity risk and the strategic measures. The Bank undertakes risk assessments to review financial and operational performance against business strategy and risk performance prior to distribution of the annual bonus. The Bank ensures that total variable remuneration does not limit its ability to strengthen its capital base..

The bonus pool takes into account the performance of the Bank which is considered within the context of the Bank's risk management framework. This ensures that the variable pay pool is shaped by risk considerations and Bank-wide notable events.

The size of the variable remuneration pool and its allocation within the bank takes into account the full range of current and potential risks, including:
a) The cost and quantity of capital required to support the risks taken;
b) The cost and quantity of the liquidity risk assumed in the conduct of business; and
c) Consistency with the timing and likelihood of potential future revenues incorporated into current earnings.

The NRGC keeps itself abreast of the Bank's performance against the risk management framework. The NRGC will use this information when considering remuneration to ensure returns, risks and remuneration are aligned.

*Risk adjustments*
The Bank has an ex-post risk assessment framework which is a qualitative assessment to back-test actual performance against prior risk assumptions.

In years where the Bank suffers material losses in its financial performance, the risk adjustment framework will consider the following:
- Need for a considerable contraction of the Bank's total variable remuneration.
- At an individual level, poor performance by the Bank will mean individual KPIs are not met and hence employee performance ratings may be lower
- Reduction in the value of deferred shares or awards
- Possible changes in vesting periods and additional deferral applied to unvested rewards
- Lastly, if the qualitative and quantitative impact of a loss incident is considered significant, a malus or clawback of previous variable awards may be considered.

The NRGC, with the Board's approval, can rationalize and make the following discretionary decisions:
- Take no action
- Increase/ reduce the ex-post adjustment
- Consider additional deferrals or increase in the quantum of non-cash awards
- Recovery through malus and clawback arrangements

*Malus and Clawback framework*
The Bank's malus and clawback provisions allow the Bank's Board of Directors to determine that, if appropriate, unvested elements under the deferred bonus plan can be forfeited/ adjusted or the delivered variable remuneration recovered in certain situations. The intention is to allow the Bank to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term. All deferred compensation awards contain provisions that enable the Bank to reduce or cancel the awards of employees whose individual behaviour has had a materially detrimental impact on the Bank during the concerned performance year.

Any decision to take back an individual's awards can only be taken by the Bank's NRGC. The Bank's NRGC takes into account the advice of the CEO, Risk, Finance and HR Departments as appropriate.

The Bank's malus and clawback provisions allow the Bank's Board to determine that, if appropriate, vested /unvested elements under the deferred bonus plan can be adjusted/ cancelled in certain situations. These events include the following:
- Reasonable evidence of misbehaviour or material error by the employee causing harm to the Bank's reputation or where his/her/her actions have amounted to misconduct, incompetence or negligence
- The employee's business unit suffers a material downturn in its financial performance or a material restatement of the financial statements of the Bank
- The employee's business unit suffers a material risk management failure
- An employee deliberately misled the market and/or shareholders in relation to the financial performance of the Bank
- A significant deterioration in the financial health of the Bank

Clawback can be used if the malus adjustment on the unvested portion is insufficient given the nature and magnitude of the issue.





**Components of Variable remuneration**
The Bank's variable remuneration framework provides for the following key components:

| | |
|---|---|
| Upfront cash | The portion of the variable compensation that is awarded and paid out in cash on conclusion of the performance evaluation process for each year. |
| Deferred Cash | The portion of variable compensation that is awarded and paid in cash on a pro-rata basis over a period of 3 years |
| Upfront share awards | The portion of variable compensation that is awarded and issued in the form of shares on conclusion of the performance evaluation process for each year, but released after a retention period of 6 months. |
| Deferred annual bonus (DAB) share awards | The portion of variable compensation that is awarded and paid in the form of shares on a pro-rata basis over a period of 3 years and an additional retention period of 6 months |
| Future performance awards (FPA) | The portion of variable compensation which is awarded to selected employees. The awards are contingent on the delivery of future performance targets for the Bank as well as service conditions on part of employees. These could comprise individually or a combination of the following:<br>• Long term Incentive Plan Shares, where the employees are compensated in form of shares as a percentage of fixed salary on achievement of some future performance conditions.<br>• Profit share, where the employees are compensated based on a specified percentage of targeted profit for a transaction.<br>• Carried Interest, where the employees are compensated a specified percentage of fair value gain on investments once it achieves a specified hurdle rate on realisation.<br>• Co-investment, wherein as portion of variable remuneration is awarded in the form of an investment made by the bank which is encashable by employee on Bank's exit from the investment.<br>• Sales/ recovery incentive, where the employee or a team is compensated on the basis of a specified percentage of a sales value of an investment on successful exit or recovery of an asset. |

**Employee Share Ownership Loan Scheme**
GFH may also implement an employee share ownership loan scheme (ESOL Scheme) from time to time to be implemented under any of the Share Incentive Scheme it develops. Such ESOL Scheme, if implemented, shall allow employees to increase their participation in GFH Shares through the utilization of financing advanced by the Bank and the right to acquire GFH shares at the pricing determined in accordance with the ESOL Scheme. The ESOL Scheme is designed to enable eligible participants to increase their holdings of GFH shares on favourable terms but under the funding of the participants themselves.

**Establishment of the Trust Instrument:**
GFH has established a GFH Employee Benefit Trust instrument to hold and manage its deferred staff benefits related to the Variable Remuneration policy. The Trustees shall undertake all of the duties set out in the Bahrain Trust Law and the Trust Instrument.

### Deferred compensation

All covered persons earning over BHD 100,000 in total compensation are subject to deferral of variable remuneration as follows:

| Element of variable remuneration | CEO, his deputies and other 5 most highly paid business line employees | Other covered staff | Deferral period | Retention | Malus | Clawback |
|---|---|---|---|---|---|---|
| Upfront cash | 40% | 50% | Immediate | - | - | Yes |
| Upfront shares | - | 10% | Immediate | 6 months | Yes | Yes |
| Deferred cash | 10% | - | Over 3 years | - | Yes | Yes |
| Deferred share awards | 10%-50% | 10%-40% | Over 3 years | 6 months | Yes | Yes |
| Other Non-Cash Awards or FPA | 0%-40% | 0%-30% | Performance linked | 6 months | Yes | Yes |

The NRGC, based on its assessment of role profile and risk taken by an employee could increase the coverage of employees that will be subject to deferral arrangements.

All deferred and future performance awards are subject to malus provisions. All share awards and related dividends are released to the benefit of the employee after a six-month retention period from the date of vesting. The number of equity share awards is linked to the Bank's share price as per the rules of the Bank's Share Incentive Scheme.

### Details of remuneration paid

*(a) Board of Directors*

US$ 000's

| | 2018 | 2017 |
|---|---|---|
| Remuneration | 3,500 | 4,450 |
| Sitting fees | 161 | 162 |
| Total | **3,661** | 3,548 |

These above disclosures pertain to information related to the remuneration paid by GFH Financial Group BSC only and excludes any remuneration paid by subsidiaries which are governed by applicable laws for each entity.





*(b) Employee remuneration*

US$ 000's

| | | Fixed remuneration | | Variable remuneration | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Upfront | | Deferred | | | |
| Type of employees | Number of staff | Cash | Others | Cash | Commission | Cash | Shares [3] | Others | Total |
| **2018 [1,2]** | | | | | | | | | |
| Approved Persons: Business lines | 6 | 3,087 | - | 3,009 | 355 | 750 | 3,758 | - | 10,959 |
| Approved Persons: Control & support | 7 | 2,392 | - | 905 | - | 78 | 883 | - | 4,258 |
| Other material risk takers | 25 | 3,561 | - | 874 | 821 | 22 | 423 | - | 5,701 |
| Other Employees: Bahrain Operations | 61 | 4,330 | - | 1,064 | - | - | 235 | - | 5,629 |
| Other Employees: Other Subsidiaries [1] | 18 | 1,186 | - | 1,496 | - | - | - | - | 2,682 |
| | **117** | **14,556** | **-** | **7,348** | **1,176** | **850** | **5,299** | | **29,229** |

*Notes:*

1. *The above disclosures exclude remuneration details of Khaleeji Commercial Bank BSC (KHCB) and Projects of the Bank (India, Tunis and Morocco, Al Areen Hotel etc) that are consolidated and only include staff of GFH Capital Limited (UAE) and GFH Properties SPC, which are integral to the business of the Bank. Information pertaining to KHCB is separately available within their annual report.*

2. *The financial information is presented based on final approvals by the NRGC and Board of Directors and awards communicated to employees subsequent to the issue of the consolidated financial statements.*

3. *The amounts attributed to share awards are based on the final allocation of bonus pool to deferred share awards after the issue of the financial statements. Additional accounting charge arising due to fair value adjustments on share awards will be reflected in the subsequent accounting periods. Accordingly, the information reported in the table above may not necessarily match with the accounting charge reflected for 2018.*

4. *In addition to the compensation reported above, severance payments made during the year amounted to US$ 4,250 of which the highest paid to a single person amounted to USD 2,052.*

### (b) Employee remuneration (contd.)

US$ 000's

| Type of employees | Number of staff | Fixed remuneration Cash | Fixed remuneration Others | Variable remuneration Upfront Cash | Upfront Commission | Deferred Cash | Deferred Shares [3] | Others | Total |
|---|---|---|---|---|---|---|---|---|---|
| 2017 [1,2] | | | | | | | | | |
| Approved Persons Business lines | 7 | 2,396 | - | 2,217 | - | 540 | 3,610 | - | 8,763 |
| Approved Persons Control & support | 9 | 2,390 | - | 437 | - | 65 | 491 | - | 3,383 |
| Other material risk takers | 25 | 3,224 | - | 1,161 | 100 | - | 401 | - | 4,886 |
| Other Employees: Bahrain Operations | 52 | 3,541 | - | 533 | - | - | - | - | 4,074 |
| Other Employees: Overseas Branches & Subsidiaries [1] | 13 | 1,366 | - | 510 | - | - | - | - | 1,876 |
| | 106 | 12,917 | - | 4,858 | 100 | 605 | 4,502 | | 22,982 |

*Notes:*

1. *The above disclosures exclude remuneration details of Khaleeji Commercial Bank BSC (KHCB) and Projects of the Bank (India, Tunis and Morocco) that are consolidated and only include staff of GFH Capital Limited (UAE) and GFH Properties SPC, which are integral to the business of the Bank. Information pertaining to KHCB is separately available within their annual report.*

2. *The financial information is presented based on final approvals by the NRGC and Board of Directors and awards communicated to employees subsequent to the issue of the consolidated financial statements.*

3. *The amounts attributed to share awards are based on the final allocation of bonus pool to deferred share awards after the issue of the financial statements. Additional accounting charge arising due to fair value adjustments on share awards will be reflected in the subsequent accounting periods. Accordingly, the information reported in the table above may not necessarily match with the accounting charge reflected for 2017.*

4. *In addition to the compensation reported above, severance payments made during the year amounted to US$ 4,250 of which the highest paid to a single person amounted to USD 2,052.*





### (c) Deferred awards

US$ 000's

| **2018** | **Cash** | **Shares Number** | **Shares USD'000s** | **Total** |
|---|---|---|---|---|
| Opening balance | 2,050 | 43,656,048 | 13,168 | 15,218 |
| Awarded during the period | 850 | 24,531,867 | 5,299 | 6,149 |
| Paid out / released during the period | (533) | (19,398,069) | (3.662) | (1,121) |
| Service, performance and risk adjustments | - | - | - | - |
| Bonus share and other corporate events | - | - | - | - |
| **Closing balance** | **2,367** | **43,656,048** | **13,168** | **15,218** |

US$ 000's

| 2017 | Cash | Shares Number | Shares USD'000s | Total |
|---|---|---|---|---|
| Opening balance | 1,554 | 39,645,185 | 9,678 | 11,232 |
| Awarded during the period | 605 | 10,073,641 | 4,502 | 5,107 |
| Paid out / released during the period | (109) | (8,776,842) | (1.012) | (1,121) |
| Service, performance and risk adjustments | - | - | - | - |
| Bonus share and other corporate events | - | 2,714,064 | - | - |
| Closing balance | 2,050 | 43,656,048 | 13,168 | 15,218 |

*Notes:*

*The total number of shares include additional employee participation through ESOL approved by the NRGC. However, the value reported above only reflects the fair value benefit that has accrued to the benefit of the employee on award/ modification dates. These are not necessarily reflective of issue price of share awards.*

*These above disclosures exclude information related to KHCB which is available separately in their annual report.*

03

GFH perceives strong risk management capabilities to be the foundation in delivering results to customers, investors and shareholders.

# Risk & Capital Management

# Risk and Capital Management

8 Billion

The Group's total risk weighted assets as at 31 December 2018 amounted to USD 8,031,361 thousand. Credit risk accounted for 94.6 percent, operational risk 4.9 percent, and market risk 0.5 percent of the total risk weighted assets respectively. Tier I and total regulatory capital were USD 1,178,061 thousand and USD 1,217,313 thousand respectively, as at 31 December 2018.

## 1 EXECUTIVE SUMMARY

This report contains a description of the Bank's risk management and capital adequacy practices and processes, including detailed information on the capital adequacy process.

As at 31 December 2018, the Group's total capital ratio stood at a healthy ratio of 15.16%.

The Bank's Tier I and total capital adequacy ratios comply with the minimum capital requirements under the CBB's Basel 3 / IFSB for Islamic financial institutions framework.

The Group's total risk weighted assets as at 31 December 2018 amounted to USD 8,031,361 thousand. Credit risk accounted for 94.6 percent, operational risk 4.9 percent, and market risk 0.5 percent of the total risk weighted assets respectively. Tier I and total regulatory capital were USD 1,178,061 thousand and USD 1,217,313 thousand respectively, as at 31 December 2018.

At 31 December 2018, Group's CET1, T1 capital and total capital adequacy ratios were at 14.55%, 14.67% and 15.16% respectively.

The disclosures in this report are in addition to or in some cases, serve to clarify the disclosures set out in the consolidated financial statements for the year ended 31 December 2018, presented in accordance with the Financial Accounting Standards (FAS) issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI). To avoid any duplication, information required under PD module but already disclosed in other sections of Annual Report has not been reproduced. These disclosures should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2018.

GFH has developed an ICAAP around its economic capital framework which involves identification and measurement of risks to maintain an appropriate level of internal capital in alignment to the Bank's overall risk profile and business plan.

## 2 INTRODUCTION

The Basel III framework consists of three mutually reinforcing pillars:

i. **Pillar 1:** Minimum capital requirements for credit risk, market risk and operational risk.
ii. **Pillar 2:** Supervisory review of capital adequacy including Internal Capital Adequacy Assessment process (ICAAP)
iii. **Pillar 3:** Market discipline including rules for disclosure of risk management and capital adequacy.

### 2.1 Pillar 1

Pillar 1 prescribes the basis for the calculation of the regulatory capital adequacy ratio. Pillar 1 defines the regulatory minimum capital requirements for each bank to cover the credit risk, market risk and operational risk inherent in its business model. It also defines the methodology for measurement of these risks and the various elements of qualifying capital. The capital adequacy ratio is calculated by dividing the regulatory capital base by the total Risk Weighted Assets (RWAs).

The resultant ratio is to be maintained above a predetermined and communicated level. The CBB also requires banks incorporated in Bahrain to maintain a 12.5% minimum Total Adequacy Ratio including the above Capital Conservation Buffer (CCB) requirement of 2.5%.

In the event that the capital adequacy ratio falls below 12.5 per cent (consolidated), additional prudential reporting requirements apply, and a formal action plan setting out the measures to be taken to restore the ratio above the target level is to be formulated and submitted to the CBB. Consequently, the CBB requires GFH to maintain a minimum capital adequacy ratio of 12.5 per cent (consolidated).

The table below summarizes the Pillar 1 risks and the approaches used by the Bank to calculating the RWAs in accordance with the CBB's Basel II capital adequacy framework.

| Risk Type | Approach used by GFH |
|---|---|
| Credit risk | Standardised Approach |
| Market risk | Standardised Approach |
| Operational risk | Basic Indicator Approach |

**2.2 Pillar 2**
Pillar 2 deals with the Supervisory Review and Evaluation Process (SREP). It also addresses the Internal Capital Adequacy Assessment Process (ICAAP) to be followed by Banks to assess the overall capital requirements to cover all relevant risks (including those covered under Pillar 1).

Under the CBB's Pillar 2 guidelines, each bank is to be individually assessed by the CBB and an individual minimum capital adequacy ratio is to be determined for each bank.

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. GFH has developed an ICAAP around its economic capital framework which involves identification and measurement of risks to maintain an appropriate level of internal capital in alignment to the Bank's overall risk profile and business plan. An ICAAP document has been developed to address major components of the Bank's risk management, from the daily management of material risks including risk types which are not covered under Pillar I including liquidity risk, profit rate risk in the banking book, concentration risk, and reputational risk. The Bank uses the ICAAP document for internal capital monitoring purposes.

**2.3 Pillar 3**
In the CBB's Basel II framework, the Pillar 3 prescribes how, when, and at what level information should be publicly disclosed about an institution's risk management, governance and capital adequacy practices. The disclosures comprise detailed qualitative and quantitative information. The purpose of the Pillar 3 disclosure requirements is to complement the first two Pillars and the associated supervisory review process. The disclosures are designed to enable stakeholders and market participants to assess an institution's risk appetite and risk exposures and to encourage all banks, via market pressures, to move towards more advanced forms of risk management.

The current regulations require partial disclosure consisting mainly of quantitative analysis during half year reporting and fuller disclosure during year end to coincide with the financial year-end reporting.

## 3 OVERALL RISK AND CAPITAL MANAGEMENT

**3.1 Risk management charter**
GFH perceives strong risk management capabilities to be the foundation in delivering results to customers, investors and shareholders. The Bank will continue to endeavour to enhance its existing framework and adopt international best practices of risk management, corporate governance and the highest level of market discipline.

The primary objectives of the risk management charter of the Bank are to:
- Manage risks inherent in the Bank's activities in line with the risk appetite of the Bank;
- Strengthen the Bank's risk management practices to reflect the industry best practices; and
- Align internal capital requirements with risk materiality.

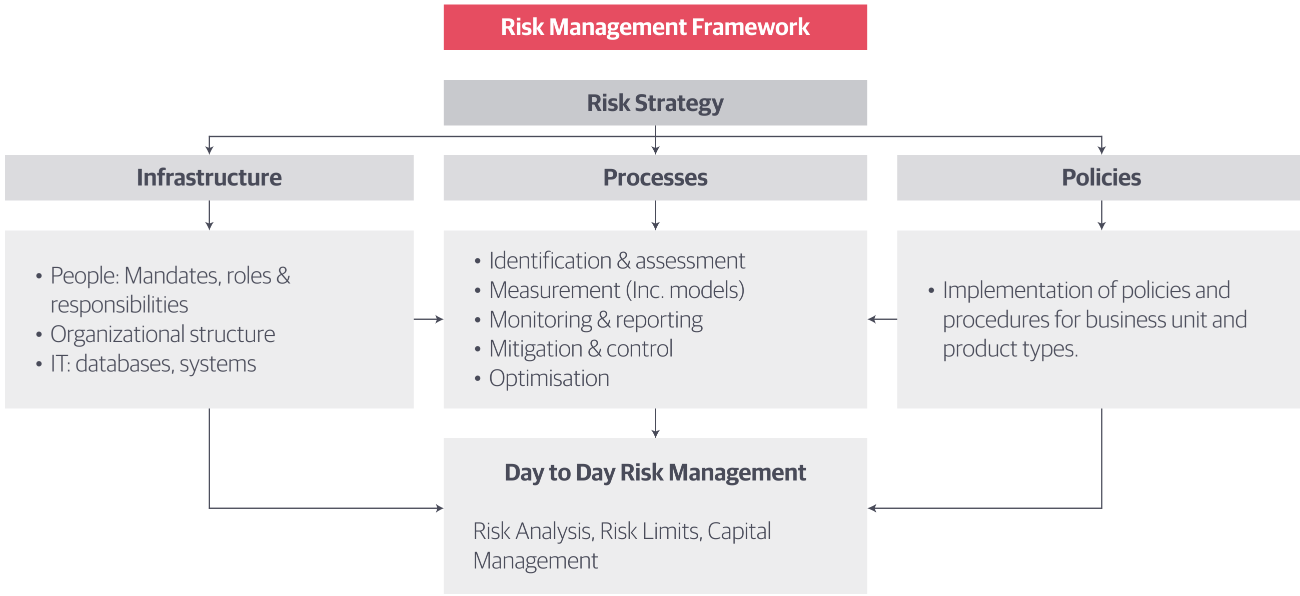
The risk strategy is articulated through the limit structures for individual risks. These limits are based on the Bank's business plans and guided by regulatory requirements and guidance in this regard. The risk limits reflects the level of risk that GFH is prepared to take in order to achieve its objectives. The Bank reviews and realigns its risk limits as per the evolving business plan of the Bank with changing economic and market scenarios. The Bank will also assess its tolerance for specific risk categories and its strategy to manage these risks. The limits outlines the Bank's risk exposures and defines its tolerance levels towards accepting or rejecting these risks. Tolerance levels are reflected in the limits defined by the Bank for each risk area.





*Risk management framework*
Our Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place.

The diagram below represents the Bank's overall risk management framework and its components:




The risk management framework of the Bank encapsulates the spirit of the following key principles for Risk Management as articulated by Basel III:
- Management oversight and control
- Risk culture and ownership
- Risk recognition and assessment
- Control activities and segregation of duties
- Information and communication
- Monitoring Risk Management activities and correcting deficiencies

## 3 OVERALL RISK AND CAPITAL MANAGEMENT (contd.)

### 3.2 Risk governance structure

The Risk Governance structure of the Bank is depicted by the following diagram:

| | | |
|---|---|---|
| Level 1 | Board<br>Sharia Board | Internal Audit |
| Level 2 | Board Committees<br>• Board Nominations, Remuneration, and Governance Committee (NRGC)<br>• Board Executive Committee<br>• Board Audit & Risk Committee (ARC) | |
| Level 3 | Senior Management Committees<br>• Management Committee (MANCOM) | |
| Level 4 | Risk Management Department<br>• Credit & Investment Risk<br>• Market Risk<br>• Liquidity Risk<br>• Operational Risk | |
| Level 5 | Desktop level procedures, systems and controls in day to day business | |

Our Board of Directors has overall responsibility for establishing our risk culture and ensuring that an effective risk management framework is in place. The Board of Directors approves and periodically reviews our risk management policies and strategies. The Board Audit & Risk Committee ('ARC') is responsible for implementing risk management policies, guidelines and limits and ensuring that monitoring processes are in place.

The key element of our risk management philosophy is for the Risk Management Department ('RMD') to provide independent monitoring and control while working closely with the business units which ultimately own the risks. The Head of Risk Management reports to Board Audit & Risk Committee and administratively to the CEO.

The RMD plays a pivotal role in monitoring the risks associated with various activities of the Bank. The principal responsibilities of the department are:

- Determining the Bank's appetite for risk is in line with the limits and submitting the same to the ARC and Board for approval.
- Developing and reviewing risk management policies in accordance with the risk management guidelines issued by the CBB, Basel II, IFSB and international best practices.
- Acting as the principal coordinator in Basel II and Basel III implementation as required by the CBB and facilitating the performance of key Basel II and Basel III activities.
- Identifying and recommending risk analysis tools and techniques as required under Basel II and Basel III, guidelines issued by the CBB and IFSB.
- Reviewing the adequacy of the risk limits and providing feed back to the relevant approving authorities.
- Preparing quarterly risk reports and other risk items for review by the Board Audit & Risk Committee.
- Preparing MIS Reports for review by the Board Audit & Risk Committee, where necessary.
- Developing systems and resources to review the key risk exposures of the Bank and communicating the planned/ executed corrective actions to the Board Risk Committee.

### 3.3 Capital management

The Bank's policy is to maintain a strong capital base and meet the capital requirements imposed by the regulator (CBB), so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The allocation of capital is primarily driven by regulatory requirements. The Bank seeks to maximise return on capital while satisfying all the regulatory requirements.

The Bank has put in place a comprehensive Internal Capital Adequacy Assessment Process (ICAAP) that includes Board and senior management oversight, monitoring, reporting and internal control reviews, to identify and measure the various risks that are not covered under Pillar 1 risks and to regularly assess the overall capital adequacy considering the risks and the Bank's planned business strategies. The non-Pillar 1 risks covered under the ICAAP process include concentration risk, liquidity risk, profit rate risk in the banking book and other miscellaneous risks.





The Group does not have a trading book. The Group aims to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business. The Central Bank of Bahrain (CBB) sets and monitors capital requirements for the Bank as a whole. In implementing current capital requirements CBB requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. From 1 January 2015, capital adequacy regulations of CBB is based on the principles of Basel III of the IFSB guidelines.

The Bank's regulatory capital is analysed into two tiers:

- **Tier 1 capital:** includes CET1 and AT1

  CET1 comprise of ordinary share capital that meet the classification as common shares for regulatory purposes, disclosed reserves including share premium, general reserves, legal / statutory reserve, common shares issued by consolidated banking subsidiaries of the Bank and held by third parties, retained earnings after regulatory adjustments relating to goodwill and items that are included in equity which are treated differently for capital adequacy purposes.

  AT1 comprise of instruments that meet the criteria for inclusion in AT1, instruments issued by consolidated banking subsidiaries of the Bank held by third parties which meet the criteria of AT1, and regulatory adjustments applied in calculation of AT1.

- **Tier 2 capital:**

  Includes instruments issued by the Bank that meet the criteria for inclusion in Tier 2 capital, stock surplus resulting from issue of Tier 2 capital, instruments issued by consolidated banking subsidiaries of the Bank held by third parties that meet the criteria for inclusion in Tier 2, general provisions held against unidentified losses on financing and qualify for inclusion within Tier 2, asset revaluation reserve from revaluation of fixed assets and instruments purposes and regulatory adjustments applied in the calculation of Tier 2 capital.

The regulatory adjustments are subject to limits prescribed by the CBB requirements, these deductions would be effective in a phased manner through transitional arrangements from 2015 to 2018. The regulations prescribe higher risk weights for certain exposures that exceeds materiality thresholds. These regulatory adjustments required for certain items such as goodwill on mortgage service right, deferred tax assets, cash flow hedge reserve, gain on sale of related securitisation transactions, defined benefit pension fund assets and liabilities, investment in own shares and reciprocal cross holdings in the capital of Banking and financial entities, investment in the capital of Banking and financial entities that are outside the scope of regulatory consolidation and where the Bank does not own more than 10% of issued common shares capital of the entity and significant investments in the capital of banking and financial entities that are outside the scope of regulatory consolidation.

Risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

### 3.4 Risk types

The Bank is exposed to various types of risk.

| | |
|---|---|
| Risks in Pillar 1 | • Credit risk<br>• Market risk<br>• Operational risk |
| Risks in Pillar 2 | • Liquidity risk<br>• Concentration risk<br>• Profit rate risk in banking book<br>• Reputational risk (earnings at risk)<br>• Other risks – including strategic risk, regulatory risk etc. |

The details of components of risks and how they are managed are discussed in the following sections of this document.

### 3.5 Monitoring and reporting

The RMD, together with the Internal Audit, provide independent assurance that all types of risk are being measured and managed in accordance with the policies and guidelines set by the Board of Directors. The RMD submits a quarterly Risk Overview Report (ROR) to the Board Audit & Risk Committee. The ROR describes the potential issues for a wide range of risk categories and classifies the risk from low to high. The ROR also provides comments as to how risk factors are being addressed and mitigated by the Bank. The Bank has established an adequate system for monitoring and reporting risk exposures and capital adequacy requirements. These reports include periodic risk reviews, quarterly risk reports etc. These reports aim to provide the senior management with an up-to-date view of the risk profile of the Bank. Moreover, external consultants are also engaged where deemed necessary to enhance and improve the risk management standard procedures.

## 4 GROUP STRUCTURE

The consolidated financial statements for the year comprise of the financial statements of the Bank and its subsidiaries (together referred to as "the Group") as at 31 December 2018. The Group's financial statements are prepared and published on a full consolidation basis, with all material subsidiaries being consolidated in accordance with AAOIFI. Please refer to notes 4 in the consolidated financial statements for more details on the accounting policies for investments, including subsidiaries and associates of the Bank.

The principal subsidiaries and associates as at 31 December 2018 and their treatment for capital adequacy purposes are as follows:

| Subsidiaries | Entity classification as per PCD Module for consolidated capital adequacy | Treatment by the Bank | |
|---|---|---|---|
| | | Consolidated | Solo basis |
| Khaleeji Commercial Bank BSC (KHCB) | Banking subsidiary | Full consolidation | Full deduction from capital |
| Morocco Gateway Investment Company (MGIC) | Commercial entity | Risk weighting of investment exposure | |
| GFH Capital Limited | Financial entity | Full consolidation | Full deduction from capital |
| KHCB Asset Company | Financial entity | Full consolidation | No impact as no direct investment by the Bank and the entity is a securitisation vehicle. |
| Harbour North 1 Real Estate S.P.C.<br>Harbour North 2A Real Estate S.P.C.<br>Harbour North 2B Real Estate S.P.C.<br>Harbour North 3 Real Estate S.P.C.<br>GFH Properties SPC<br>Harbour Row 2 Real Estate S.P.C.<br>Harbour Row 3 Real Estate S.P.C.<br>Harbour Row 4 Real Estate S.P.C. | Commercial Entities | Risk weighting (look through approach) approved by the CBB on 27 May 2012 [ii] | |
| Delmon Lost Paradise Project Company 1 SPC<br>Delmon Lost Paradise Project Company 2 SPC | Commercial Entities | Risk weighting (look through approach) approved by the CBB on 27 May 2012 [ii] | |
| Al Areen Hotels SPC | Commercial entity | Risk weighting of investment exposure | |
| Tunis Bay Investment Company (TBIC) | Commercial entity | Risk weighting of investment exposure | |
| Energy City Navi Mumbai Investment Company & Mumbai IT & Telecom Technology Investment Company (together "India Project") | Commercial entities | Risk weighting of investment exposure | |
| Falcon Cement Company BSC (c) | Commercial entity | Risk weighting of investment exposure | |
| Sheffield Dubai Investment Company | Commercial entity | Risk weighting of investment exposure | |
| Gulf Holding Company KSCC | Commercial entity | Risk weighting of investment exposure | |





| Associates | Entity classification as per PCD Module for consolidated capital adequacy | Treatment by the Bank for consolidated and solo basis |
|---|---|---|
| Bahrain Aluminium Extrusion Company BSC | Commercial entity | Risk weighting of investment exposure |
| Global Banking Corporation BSC (GB Corp) [i] | Financial entity | Regulatory adjustment (deduction from capital) |
| Enshaa Development Real Estate BSC | Commercial entity | Risk weighting of investment exposure |
| Capital Real Estate Projects BSC | Commercial entity | Risk weighting of investment exposure |

*[i] The Bank's investment in GB Corp does not exceed the threshold for deduction from capital, and hence, the entire investment exposure is risk weighted as per the regulatory adjustment.*
*[ii] These are pass-through entities and hence the underlying investments are risk weighted*

The investments in subsidiaries and associates are subject to large exposure and connected counter party limits and guidelines set by the CBB. Significant investment in banking subsidiaries and financial entities that exceed the threshold for deduction from capital, the excess should be deducted from the capital of the Group.

The Central Bank of Bahrain, vide its letter dated 11 July 2018, has continued the exemption granted to GFH Financial Group from including the assets acquired via recovery and via the shares swap as part of the Large Exposure and Connected Counterparty limits. The same will be reassessed by Central Bank of Bahrain on an annual basis.

KHCB, a banking subsidiary of the Bank, is a locally incorporated commercial bank and the specific quantitative and qualitative disclosures pertaining to all the risks of KHCB have been disclosed in the Risk Management Disclosures of KHCB as at 31 December 2018, which can be accessed through the Annual report of KHCB. This document provides the risk and capital management disclosures of the Bank. The KHCB specific disclosures and requirements are disclosed in the annual report of KHCB and are not reproduced in this document.

This document intends to combine the risk and capital management disclosures of the Bank and its involvement with its subsidiaries and associates. The quantitative disclosures in these documents provide further details of the exposures used for capital calculation purposes (where some entities are consolidated and some may be risk weighted) and accordingly will not match with the consolidated financial statements of the Group.

There are no restrictions for transfer of capital other than those applicable to licensed financial entities and process of commercial companies' law of respective jurisdictions.

## 5 COMPOSITION OF CAPITAL

### 5.1 3 steps approach to reconciliation between balance sheet in published financial statements and the composition of capital disclosure template

Statement of financial position under the regulatory scope of consolidation and reconciliation of published financial statements to regulatory reporting as at 31 December 2018.

The table below shows the link between the statement of financial position in the published financial statements (accounting statement of financial position) and the regulatory statement of financial position.

US$ 000's

| As at 31 December 2018 | Consolidated Statement of Financial Position as in published financial statements | Consolidated Statement of Financial Position as per Regulatory Reporting | Reference |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and bank balance | 341,567 | 340,374 | |
| Of which Expected Credit Losses (ECL) resulting from adoption of FAS 30 | (134) | (134) | A |
| Placement with financial institutions | 289,558 | 289,558 | |
| Of which Expected Credit Losses (ECL) resulting from adoption of FAS 30 | (953) | (953) | A |
| Financing assets | 920,676 | 920,676 | |
| Of which Expected Credit Losses (ECL) resulting from adoption of FAS 30 | (62,600) | (22,432) | A |
| Investment securities | 773,134 | 1,491,457 | |
| Of which Expected Credit Losses (ECL) resulting from adoption of FAS 30 | (3,501) | (8) | A |
| Of which equity investments in financial entities | 18,000 | 18,000 | B |
| Assets acquired for leasing | 288,271 | 288,271 | |
| Of which Expected Credit Losses (ECL) resulting from adoption of FAS 30 | (6,515) | (650) | A |
| Investment properties | 523,692 | 483,319 | |
| Development properties | 1,316,318 | 333,067 | |
| Equity-accounted investees | 66,964 | 66,964 | |
| Of which equity investments in financial entities | 33,227 | 33,227 | C |
| Assets held-for-sale | 147,141 | - | |
| Property and equipment | 92,902 | 22,746 | |
| Other assets | 229,142 | 147,049 | |
| Of which Expected Credit Losses (ECL) resulting from adoption of FAS 30 | (236) | (236) | A |
| **Total assets** | **4,989,365** | **4,383,481** | |
| | | | |
| LIABILITIES | | | |
| Investors' fund | 46,639 | 46,639 | |
| Placements from financial institutions, other entities and individuals | 1,628,389 | 1,628,389 | |
| Customer current accounts | 177,906 | 177,906 | |
| Financing liabilities | 256,137 | 247,800 | |
| Liabilities directly associated with assets held-for-sale | 42,749 | - | |
| Other liabilities | 517,857 | 186,192 | |
| Total liabilities | 2,699,677 | 2,286,926 | |
| **Equity of investment account holders** | **896,910** | **896,910** | |





| As at 31 December 2018 | Consolidated Statement of Financial Position as in published financial statements | Consolidated Statement of Financial Position as per Regulatory Reporting | Reference |
|---|---|---|---|
| | | | |
| **OWNERS' EQUITY** | | | |
| Share capital | 975,638 | 975,638 | D |
| Treasury shares | (85,424) | (85,424) | E |
| Statutory reserve | 92,483 | 92,483 | F |
| Fair value reserve | (4,725) | (4,725) | G |
| Retained earnings | 123,136 | 123,136 | H |
| Foreign currency translation reserve | (43,380) | 30,853 | |
| Share grant reserve | 1,086 | 1,086 | G |
| **Total equity attributable to shareholders of the Bank** | **1,058,814** | **1,133,047** | |
| | | | |
| Non-controlling interests | 323,408 | 66,598 | |
| Non-controlling interests held-for-sale | 40,556 | - | |
| Of which Total minority interest in banking subsidiaries given recognition in CET1 capital | - | 66,598 | I |
| **Total owners' equity** | **1,422,778** | **1,199,645** | |
| **Total liabilities, equity of investment account holders and owners' equity** | **4,989,365** | **4,383,481** | |

The table below shows the total assets and shareholders' equity of the Bank's subsidiaries as at 31 December 2018 which are unconsolidated for capital adequacy calculation purposes. For principal activities of these subsidiaries refer Note 1 of the consolidated financial statements as at 31 December 2018.

US$ 000's

| Entity name | Total Assets * | Total Shareholders' equity * |
|---|---|---|
| Morocco Gateway Investment Company | 139,985 | 105,623 |
| Al Areen Hotels SPC | 98,413 | 93,981 |
| Al Areen Holding Company | 9,670 | 7,058 |
| India Projects | 592,765 | 457,338 |
| Tunis Bay Investment Company | 105,748 | 80,732 |
| Gulf Holding Company | 381,434 | 81,807 |
| Falcon Cement Company BSC | 100,494 | 60,559 |
| Sheffield Private School Dubai | 4,244 | 1,408 |

**The numbers disclosed are before considering acquisition accounting adjustments and intercompany eliminations.*

## 5 COMPOSITION OF CAPITAL (contd.)

*Step 3: Composition of Regulatory Capital as at 31 December 2018*

US$ 000's

| | Component of regulatory capital reported by bank | Amounts subject to pre-2015 treatment | Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation |
|---|---|---|---|
| **Common Equity Tier 1 (CET1): instruments and reserves** | | | |
| Directly issued qualifying common share capital plus related stock surplus | 975,638 | - | D |
| Statutory reserves | 92,483 | - | F |
| Retained earnings | 123,136 | - | H |
| Accumulated other comprehensive income and losses (and other reserve) | (3,639) | - | G |
| Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET 1) | 66,598 | - | I |
| **Common Equity Tier 1 capital before regulatory adjustments** | **1,254,216** | | |
| | | | |
| **Common Equity Tier 1 capital: regulatory adjustments** | | | |
| Investments in own shares (if not already netted off paid-in capital on reported balance sheet) | (85,424) | - | E |
| Total regulatory adjustments to Common equity Tier 1 | (85,424) | | |
| Common equity Tier 1 capital (CET 1) | 1,168,792 | | |
| Additional Tier 1 capital: instruments | | | |
| **Instrument issued by banking subsidiaries to third parties** | **9,269** | **-** | |
| | | | |
| **Additional Tier 1 capital (AT1)** | **9,269** | | |
| Tier 1 capital (T1 = CET1 + AT1) | 1,178,061 | | |
| | | | |
| **Tier 2 capital: instruments and provisions** | | | |
| Instruments issued by banking subsidiaries to third parties | 14,082 | - | |
| Expected Credit Losses (ECL) Stage 1 & 2 | 25,170 | | |
| Of which ECL pertaining to financial position items | 24,413 | - | A |
| Of which ECL pertaining to commitments and financial guarantees | 757 | - | J |
| Tier 2 capital before regulatory adjustments | 39,252 | | |
| | | | |
| **Tier 2 capital: regulatory adjustments** | | | |
| Total regulatory adjustments to Tier 2 capital | - | - | |
| Total Tier 2 capital (T2) | 39,252 | | |
| Total capital (TC = T1+T2) | 1,217,313 | | |
| Total risk weighted assets | 8,031,361 | | |





| | Component of regulatory capital reported by bank | Amounts subject to pre-2015 treatment | Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation |
|---|---|---|---|
| **Capital ratios and buffers** | | | |
| Common Equity Tier 1 (CET1) (as a percentage of risk weighted assets) | 14.55% | | |
| Tier 1 (T1) (as a percentage of risk weighted assets) | 14.67% | | |
| **Total capital (as a percentage of risk weighted assets)** | **15.16%** | | |
| | | | |
| **National minima including CCB (if different from Basel III)** | | | |
| CBB Common Equity Tier 1 minimum ratio | 9.00% | | |
| CBB Tier 1 minimum ratio | 10.50% | | |
| CBB total capital minimum ratio | 12.50% | | |
| | | | |
| **Amounts below the thresholds for deduction (before risk weighting)** | | | |
| Non-significant investments in the capital of other financial entities | 18,000 | | B |
| Significant investment in common stock of financial entities | 33,227 | | C |
| | | | |
| **Applicable caps on the inclusion of provisions in Tier 2** | | | |
| Expected Credit Losses (ECL) Stage 1 & 2 | 25,170 | | A+J |

## 5 COMPOSITION OF CAPITAL (contd.)

### Disclosure template for main features of regulatory capital instruments

| | |
|---|---|
| Issuer | GFH Financial Group BSC |
| Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement) | GFH (DFM), GFH (BHB), GFH (KSE) |
| Governing law(s) of the instrument Regulatory treatment | All applicable laws and regulations in the Kingdom of Bahrain |
| Transitional CBB rules | Common Equity Tier 1 (CET1) |
| Post-transitional CBB rules | Common Equity Tier 1 (CET1) |
| Eligible at solo/group/group & solo | Group and solo basis |
| Instrument type (types to be specified by each jurisdiction) | Common shares |
| Amount recognized in regulatory capital (Currency in mil, as of most recent reporting date) | USD 976 million |
| Par value of instrument | USD 0.265 |
| Accounting classification | Shareholders' equity |
| Original date of issuance | 1999 |
| Perpetual or dated | Not applicable |
| Original maturity date | Not applicable |
| Issuer call subject to prior supervisory approval | Not applicable |
| Optional call date, contingent call dates and redemption amount | Not applicable |
| Subsequent call dates, if applicable Coupons / dividends | Not applicable |
| Dividends | Dividends are decided and approved by the shareholders in the AGM |
| Coupon rate and any related index | Not applicable |
| Existence of a dividend stopper | Not applicable |
| Fully discretionary, partially discretionary or mandatory | Fully discretionary |
| Existence of step up or other incentive to redeem | Not applicable |
| Noncumulative or cumulative | Not applicable |
| Convertible or non-convertible | Not applicable |
| If convertible, conversion trigger (s) | Not applicable |
| If convertible, fully or partially | Not applicable |
| If convertible, conversion rate | Not applicable |
| If convertible, mandatory or optional conversion | Not applicable |
| If convertible, specify instrument type convertible into | Not applicable |
| If convertible, specify issuer of instrument it converts into | Not applicable |
| Write-down feature | Not applicable |
| If write-down, write-down trigger(s) | Not applicable |
| If write-down, full or partial | Not applicable |
| If write-down, permanent or temporary | Not applicable |
| If temporary write-down, description of write-up mechanism | Not applicable |
| Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument) | Not applicable |
| Non-compliant transitioned features | Not applicable |
| If yes, specify non-compliant features | Not applicable |





## 6 CAPITAL STRUCTURE AND CAPITAL ADEQUACY RATIO

### 6.1 Capital adequacy

The Bank's regulator CBB sets and monitors capital requirements for the Bank as a whole (i.e. at a consolidated level). The banks are required to maintain minimum capital adequacy ratio of 12.5% on a consolidated basis [ i.e. CET1 – 6.5%, AT1-1.5%, Tier 2 – 2% and CCB – 2.5%] and a capital adequacy ratio of 8% on a solo basis [ i.e. CET1 – 4.5%, AT1 – 1.5% and Tier 2- 2%]. Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain strong capital base so as to maintain investor, creditor and market confidence and to sustain the future development of the business.

The Bank has adopted the standardised approach to credit and market risk and basic indicator approach for operational risk management under the revised framework.

The Group's regulatory capital position at 31 December 2018 was as follows:

US$ '000s

| **Total Capital** | **31 December 2018** |
|---|---|
| **Common Equity Tier 1 (CET 1)** | |
| Issue and fully paid ordinary shares | 975,638 |
| Less: Treasury shares | (85,424) |
| Statutory reserve | 92,483 |
| Retained earnings | 9,060 |
| Current interim cumulative net profit | 114,076 |
| Other reserves | (3,639) |
| **Total CET1 capital before minority interest** | **1,102,194** |
| Total minority interest in banking subsidiaries given recognition in CET1 capital | 66,598 |
| **Total CET1 capital prior to the regulatory adjustments** | **1,168,792** |
| Less: Investment in own shares | - |
| **Total CET1 capital after to the regulatory adjustments** | **1,168,792** |
| Other capital - Additional Tier 1 (AT1) & Tier 2 (T2) capital | |
| Instruments issued by banking subsidiaries to third parties | |
| – AT1 | 9,269 |
| – T2 | 14,082 |
| General financing loss provisions | |
| – T2 | 25,170 |
| **Total Available AT1 & T2 capital** | **48,521** |
| **Total Capital** | **1,217,313** |

## 6 CAPITAL STRUCTURE AND CAPITAL ADEQUACY RATIO (contd.)

### 6.1 Capital adequacy

US$ '000s

| Risk weighted exposures | 31 December 2018 |
|---|---|
| Credit risk | 7,597,193 |
| Market risk | 41,458 |
| Operational risk | 392,710 |
| **Total Risk Weighted Exposures** | **8,031,361** |
| | |
| CET1 ratio | 14.55% |
| T1 ratio | 14.67% |
| **Total Capital Adequacy ratio (Total Capital)** | **15.16%** |

Total and Tier 1 Capital ratios of Khaleeji Commercial Bank BSC (c) (significant banking subsidiary of GFH) are as follows:

| | |
|---|---|
| Capital adequacy ratio (CET1 and T1) | 15.11% |
| **Total capital Adequacy ratio (Total capital)** | **16.23%** |

The Bank's paid up capital consists only of ordinary shares which have proportionate voting rights.

### 6.2 ICAAP considerations

The ICAAP incorporates a review and evaluation of risk management and capital relative to the risks to which the bank is exposed. GFH has developed an ICAAP around its economic capital framework which involves identification and measurement of risks to maintain an appropriate level of internal capital in alignment to the Bank's overall risk profile and business plan. An ICAAP document has been developed to address major components of the Bank's risk management, from the daily management of material risks including risk types which are not covered under Pillar 1 including liquidity risk, profit rate risk in the banking book, concentration risk, and reputational risk. The Bank uses the ICAAP document for internal capital monitoring purposes.





## 7 CREDIT RISK

### 7.1 Introduction

Credit risk is the risk of financial loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's, placements with financial institutions, financing assets, and other receivables balances. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank does not have a trading book and hence all of its equity investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include investments carried at fair value through equity, investments designated at fair value through profit or loss, significant and majority investments in commercial entities and associate investments in non-significant financial and non-financial entities (as significant financial entities which qualify as associates are treated separately for regulatory purposes).

### 7.2 Credit risk management

The Bank is not involved in the granting of credit facilities in the normal course of its business activities. The Bank is primarily exposed to credit risk from placements with other financial institutions, investment in sukuks, receivables from its investment banking services and in respect of funding made (both in the form of financing and short-term liquidity facilities) to its projects. These exposures arise in the ordinary course of its investment banking activities and are generally transacted without any collateral or other credit risk mitigants.

The Bank has an established internal process for assessing credit risk. The Bank has established investment and credit policies developed in consultation with business units, covering credit assessment, risk reporting, documentation and legal procedures, and compliance with regulatory and statutory requirements. The policies are supplemented by an internal authorisation structure for the approval and renewal of investment and credit facilities. Authorisation limits for credit facilities are as per the Board approved Delegated Authority Limits (DAL). The RMD assesses all investment and credit proposals prior to investments / facilities being committed. RMD lists down its concerns and comments on all applications prior to circulation for sign off. Renewals and reviews of investments / facilities are subject to the same review process. Investment updates are periodically reviewed by the Board of Directors. Regular audits of business units and credit processes are undertaken by Internal Audit.

Please refer Note 38 to the consolidated financial statements for additional details on the processes for measuring and managing credit risk.

### 7.3 Capital requirements for credit risk

To assess its capital adequacy requirements for credit risk in accordance with the CBB requirements, the Bank adopts standardized approach. According to standardized approach, on and off balance sheet credit exposures are assigned to various defined categories based on the type of counterparty or underlying exposure. The main relevant categories are claims on banks, claims on investment firms, investment in equities, holdings in real estate, claims on corporate portfolio and other assets. Risk Weighted Assets (RWAs) are calculated based on prescribed risk weights by CBB relevant to the standard categories and counterparty's external credit ratings, where available.

*Rating of exposures and risk weighting*

The use of external rating by External Credit Assessment Institutions (ECAI) is generally limited to the Bank's exposure to financial institutions and investments in sukuks. For externally rated facilities the Bank uses ratings by Standards & Poor, Moody's, Fitch and Capital Intelligence to derive risk weights for the purpose of capital adequacy computations. For financial institutions, domestic currency ratings are used to assess claims on domestic currency while foreign currency rating is used for foreign currency exposures. A preferential risk weight of 20% is used which is applicable to short term claims on locally incorporated banks where the original maturity of these claims are three months or less and these claims are in Bahraini Dinar or US Dollar.

As per CBB guidelines, 100% of the RWA's financed by owners' equity (i.e. self-financed) are included for the purpose of capital adequacy computations whereas only 30% of the RWA's financed by equity of investment account holders [EIAH] are required to be included.

## 7 CREDIT RISK (contd.)

### 7.3 Capital requirements for credit risk (contd.)

Following is the Group's analysis for credit risk as computed for regulatory capital adequacy purposes:

US$ 000's

| Exposure Class | Gross Credit Exposures | Credit Risk Mitigant | Credit Risk Exposure After Credit Risk Mitigant | Average Risk weights | Total Credit risk Weighted Exposure |
|---|---|---|---|---|---|
| **Self-financed assets** | | | | | |
| Cash items | 21,573 | - | 21,573 | 0% | - |
| Total claims on sovereign and PSEs threated as sovereign | 122,207 | - | 122,207 | 0%-50% | 435 |
| Standard Risk Weights for Claims on Banks | 75,292 | - | 75,292 | 20%-50% | 27,478 |
| Short term Claims on Banks | 177,402 | - | 177,402 | 20% | 35,480 |
| Preferential Risk Weight for Claims on Banks | 670 | - | 670 | 20%-50% | 136 |
| Claims on Corporates | 1,045,950 | (302,557) | 743,393 | 100%-800% | 856,835 |
| Past Due Facilities | 223,375 | (43,504) | 179,871 | 100%-150% | 257,560 |
| Investments in Equity Securities and Equity Sukuk | 480,647 | - | 480,647 | 100%-800% | 1,998,600 |
| Holding of Real Estate | 1,508,010 | - | 1,508,010 | 100%-400% | 4,310,940 |
| Others Assets | 17,867 | - | 17,867 | 100% | 17,867 |
| **Total self-financed assets (A)** | **3,672,993** | **(346,061)** | **3,326,932** | **0%-800%** | **7,505,331** |
| **Total regulatory capital required - self-financed assets (A x 12.5%)** | | | | **12.5%** | **938,166** |
| | | | | | |
| **Financed by EIAH** | | | | | |
| Total claims on sovereign | 386,772 | - | 386,772 | 0% | - |
| Total Claims on PSEs | 96,369 | - | 96,369 | 20%-100% | 32,249 |
| Standard Risk Weights for Claims on Banks | 180,987 | - | 180,987 | 20%-100% | 91,517 |
| Short term Claims on Banks | 82,568 | - | 82,568 | 20% | 16,514 |
| Claims on Corporates | 172,655 | (6,714) | 165,941 | 50%-100% | 165,941 |
| **Total financed by EIAH (B)** | **919,351** | **(6,714)** | **912,637** | **0%-100%** | **306,221** |
| **Considered for credit risk (C) = (B x 30%)** | | | | **30%** | **91,866** |
| **Total regulatory capital required - financed by EIAH (C x 12.5%)** | | | | **12.5%** | **11,486** |
| | | | | | |
| **Total risk weighted assets (A+C)** | | | | | **7,597,197** |
| **Minimum regulatory capital required (at 12.5%)** | | | | | **949,650** |





### 7.4 Quantitative information on credit risk

*7.4.1 Gross and average credit exposure*

The following are gross credit risk exposures considered for Capital Adequacy Ratio calculations of the Group classified as per disclosure in the consolidated financial statements:

US$ 000's

| Balance Sheet Items | Self Finance | EIAH | Total Gross Credit Exposure | Average Gross Credit Exposure* |
|---|---|---|---|---|
| Bank balances | 160,977 | 180,590 | 341,567 | 245,996 |
| Placements with financial and other institutions | 173,810 | 115,748 | 289,558 | 147,300 |
| Financing assets | 748,021 | 172,655 | 920,676 | 932,652 |
| Assets held-for-sale | 147,141 | - | 147,141 | 36,785 |
| Assets acquired for leasing | 288,271 | - | 288,271 | 269,476 |
| Equity-accounted investees | 66,964 | - | 66,964 | 83,107 |
| Investment securities | 345,217 | 427,917 | 773,134 | 632,214 |
| Investment properties | 523,692 | - | 523,692 | 546,894 |
| Development properties | 1,316,318 | - | 1,316,318 | 1,184,404 |
| Property and equipment | 92,902 | - | 92,902 | 104,112 |
| Other assets | 229,142 | - | 229,142 | 248,109 |
| **Total funded exposure** | **4,092,455** | **896,910** | **4,989,365** | **4,431,049** |
| | | | | |
| Commitments | 254,481 | - | 254,481 | 236,467 |
| Restricted investment | | | | |
| Accounts | 28,472 | - | 28,472 | 28,683 |
| **Total unfunded exposure** | **282,953** | **-** | **282,953** | **265,150** |

** Average gross credit exposures have been calculated based on the average of balances outstanding on a quarterly basis during the year ended 31 December 2018. Assets funded by EIAH are geographically classified in GCC countries, Asia and North America. Placements with financial and other institutions that are funded by EIAH are placed with Banks and financial institutions having maturity profile of up to 3 months.*

## 7 CREDIT RISK (contd.)

### 7.4 Quantitative information on credit risk (contd.)

*7.4.2 Credit exposure by geography*

The classification of credit exposure by geography, based on the location of the counterparty, was as follows:

US$ 000's

| | GCC Countries | MENA | Asia | North America | Others | Total |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Cash and bank balances | 239,632 | 516 | 101 | 80,609 | 20,709 | 341,567 |
| Placements with financial institutions | 289,558 | - | - | - | - | 289,558 |
| Financing assets | 849,029 | - | 101 | 29,415 | 42,131 | 920,676 |
| Investment securities | 694,387 | - | 58,114 | 5,850 | 14,783 | 773,134 |
| Assets acquired for leasing | 288,162 | - | 109 | - | - | 288,271 |
| Investment properties | 446,692 | 77,000 | - | - | - | 523,692 |
| Development properties | 526,749 | 393,057 | 396,512 | - | - | 1,316,318 |
| Assets held-for-sale | 147,141 | - | - | - | - | 147,141 |
| Equity-accounted investees | 66,964 | - | - | - | - | 66,964 |
| Property and equipment | 90,704 | 2,198 | - | - | - | 92,902 |
| Other assets | 154,560 | 4,299 | 22,064 | 21,320 | 26,899 | 229,142 |
| **Total assets** | **3,793,578** | **477,070** | **477,001** | **137,194** | **104,522** | **4,989,365** |
| | | | | | | |
| Equity of investment account holders | 889,525 | - | 5,918 | 1,467 | - | 896,910 |
| | | | | | | |
| **Off-Balance sheet items** | | | | | | |
| Commitments | 253,802 | - | - | - | 679 | 254,481 |
| Restricted investment accounts | 25,838 | - | 2,634 | - | - | 28,472 |

*7.4.3 Credit exposure by industry*

The classification of credit exposure by industry was as follows:

US$ 000's

| | Banks and Financial Institutions | Real Estate | Others | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and bank balances | 340,374 | 951 | 242 | 341,567 |
| Placements with financial institutions | 189,471 | 100,087 | - | 289,558 |
| Financing assets | 29,474 | 152,038 | 739,164 | 920,676 |
| Investment securities | 66,212 | 162,199 | 544,723 | 773,134 |
| Assets acquired for leasing | - | 284,059 | 4,212 | 288,271 |
| Investment properties | - | 523,692 | - | 523,692 |
| Development properties | - | 1,316,318 | - | 1,316,318 |
| Equity-accounted investees | 33,227 | 17,837 | 15,900 | 66,964 |
| Assets held-for-sale | - | - | 147,141 | 147,141 |
| Property and equipment | - | 18,411 | 74,491 | 92,902 |
| Other assets | 28,867 | 125,791 | 74,484 | 229,142 |
| **Total assets** | **687,625** | **2,701,383** | **1,600,357** | **4,989,365** |
| | | | | |
| Equity of Investment account holders | 16,134 | 34,202 | 846,574 | 896,910 |
| | | | | |
| **Off-Balance sheet items** | | | | |
| Commitments | 1,361 | 148,566 | 104,554 | 254,481 |
| Restricted investment accounts | 91 | 25,750 | 2,631 | 28,472 |

## 7 CREDIT RISK (contd.)

### 7.4 Quantitative information on credit risk (contd.)

*7.4.4 Credit exposure by maturity*

The maturity profile of credit exposures based on expected maturity was as follows:

US$ 000's

| | Up to 3 Months | 3 to 6 Months | 6 Months–1 Year | 1 to 3 Years | Over 3 Years | No Stated Maturity | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Cash and bank balances | 309,281 | 9,525 | 16,087 | 6,610 | - | 64 | 341,567 |
| Placements with financial institutions | 117,031 | - | 172,527 | - | - | - | 289,558 |
| Financing assets | 193,784 | 70,904 | 186,523 | 349,889 | 119,576 | - | 920,676 |
| Investment securities | 298,239 | - | 129,676 | 136,979 | 208,240 | - | 773,134 |
| Assets acquired for leasing | 12,745 | 9,414 | 18,751 | 91,703 | 155,658 | - | 288,271 |
| Investment properties | - | - | - | 475,731 | 47,961 | - | 523,692 |
| Development properties | - | - | - | 628,168 | 688,150 | - | 1,316,318 |
| Equity-accounted investees | - | - | - | 28,035 | 38,929 | - | 66,964 |
| Assets held-for-sale | - | 101,213 | 45,928 | - | - | - | 147,141 |
| Property and equipment | - | - | - | - | 92,902 | - | 92,902 |
| Other assets | 10,143 | 33,687 | 60,988 | 109,372 | 14,952 | - | 229,142 |
| **Total assets** | **941,223** | **224,743** | **630,480** | **1,826,487** | **1,366,368** | **64** | **4,989,365** |
| | | | | | | | |
| Equity of investment account holders | 161,409 | 116,220 | 261,812 | 147,247 | 210,222 | - | 896,910 |
| | | | | | | | |
| **Off balance sheet items** | | | | | | | |
| Commitments | 55,804 | 69,480 | 46,981 | 74,200 | 8,016 | - | 254,481 |
| Restricted investment accounts | 143 | - | - | 28,329 | - | - | 28,472 |

The table above shows the maturity profile of the Group's assets and unrecognised commitments on the basis of their contractual maturity, here available. For other items, (including past due receivables), the maturity profile is on the basis of their expected realization. The total assets are reconciled to the gross credit exposures considered for capital adequacy computation purposes.

### 7.5 Large exposures

The CBB has set single exposure limit of 15% of the Bank's total capital base on exposures to individual and a combined exposure limit of 25% of total capital base of closely connected counterparties. The excess amount of any exposure above the mentioned thresholds must be risk weighted at 800%, unless it is an exempt exposure in accordance with the requirements of CBB rulebook.
All Large exposures in excess of 15% of capital base as at 31 December 2018 has been risk weighted at 800%. Also the combined exposures in excess of 25% of total capital base of closely connected counterparties have been risk weighted at 800%.

The following are the Large exposure counterparties in excess of 15% of capital base.

US$ 000's

| Single exposure in excess of 15% of capital base | % of capital | Exposure as at 31 December 2018 |
|---|---|---|
| Counterparty A | 20.3% | 246,475 |

### 7.6 Impaired facilities and past due exposures

As the Bank is not engaged in granting credit facilities in its normal course of business, it does not use a detailed internal credit "grading" model. The current risk assessment process classifies credit exposures into two broad categories "Unimpaired" and "Impaired", reflecting risk of default and the availability of collateral or other credit risk mitigation. Currently the Bank does not have any exposures that are collateralised. The Bank does not perform a collective assessment of impairment for its credit exposures as the credit characteristics of each exposure is considered to be different. Credit and investment exposures are subject to regular reviews by the Investment units and RMD. Quarterly updates on the investments / facilities are prepared by the investment unit reviewed by management and sent to the Board for review.

The definition and details of impaired assets, past due but not impaired exposures and policy for establishing an allowance account and write-off of an exposure is provided for in Note 38 to the consolidated financial statements. The details of changes in impairment allowances for financial assets are provided for in the notes to the consolidated financial statements.

All impaired and past due credit exposures at 31 December 2018 mainly relate to the real estate and development infrastructure sectors.

### 7.7 Credit risk mitigation

The credit risk exposures faced by the Bank are primarily related to placements with other financial institutions, investments in sukuks and in respect of investment related funding made to its projects. The funding made to the projects are based on the assessment of the underlying value of the assets and the expected streams of cash flows. Since these exposures arise in the ordinary course of the Bank's investment banking activities and are with the projects promoted by the Bank, they are generally transacted without any collateral or other credit risk mitigants.

### 7.8 Related party and intra-group transactions

Related counterparties are those entities which are connected to the Bank through significant shareholding or control or both. The Bank has entered into business transactions with such counterparties in the normal course of its business. For the purpose of identification of related parties the Bank strictly follows the guidelines issued by Central Bank of Bahrain and definitions as per FAS issued by AAOIFI. Detailed break up of exposure to related parties has been presented in Note 27 to the consolidated financial statements.

### 7.9 Exposure to highly leveraged and other high risk counterparties

The Bank has no exposure to highly leveraged and other high risk counterparties as per definition provided in the CBB rule book PD 1.3.24.

### 7.10 Restructured facilities

As at 31 December 2018, other assets which are neither past due nor impaired include certain short-term financing to projects which were renegotiated during the year (refer note 38 to the consolidated financial statements). In certain cases, on a need basis, the Bank supports its projects by providing credit facilities. These facilities are provided based on assessment of cash flow requirements of the projects and the projects ability to repay the financing amounts based on its operating cash flows. The assessment is independently reviewed by the management of the Bank. Although no specific collateral is provided, such exposures are usually adequately covered by the value of the underlying project assets. The terms of the renegotiation primarily include extension of the repayment period. The facilities are provided for as viewed necessary based on periodic impairment assessments.

## 7 CREDIT RISK (contd.)

### 7.11 Equity investments held in banking book

The Bank does not have a trading book and hence all of its equity investments are classified in the banking book and are subject to credit risk weighting under the capital adequacy framework. For regulatory capital computation purposes, the Bank's equity investments in the banking book include available-for-sale investments, significant and majority investments in commercial entities and associate investments in non-significant financial and non-financial entities (i.e. significant financial entities which qualify as associates are treated separately for regulatory purposes).

Please refer to the notes to the consolidated financial statements for policies covering the valuation and accounting of equity holdings, including the accounting policies and valuation methodologies used, key assumptions and practices affecting valuation.

The RMD provides an independent review of all transactions. A fair evaluation and impairment assessment of investments takes place every quarter with inputs from the Investment department, Finance department and RMD. Investment updates are periodically reviewed by the Board of Directors. Regular audits of business units and processes are undertaken by Internal Audit.

The Bank's equity investments are predominantly in its own projects, which include venture capital, private equity, asset management, real estate development and development infrastructure investment products. The intent of such investments is a later stage exit along with the investors principally by means of sell outs at the project level or through initial public offerings. The Bank also has a strategic financial institutions investment portfolio which is aligned with the long term investment objectives of the Group.

| Information on equity investments | US$ 000's |
|---|---|
| Privately held | 416,756 |
| Quoted in an active market | 28,990 |
| Dividend income | 5,698 |
| Realised gain/ (loss) during the year | (4,725) |

The following are the categories under which equity investments are included in the capital adequacy computations as per the requirements of the CBB rules:

US$ 000's

| | Gross exposure | Risk weight | Risk weighted exposure | Capital charge |
|---|---|---|---|---|
| Listed equity investment | 28,990 | 100% | 28,990 | 3,479 |
| Unlisted equity investment* | 217,242 | 150% | 325,863 | 39,104 |
| Significant investment in the common shares of financial entities >10% | 42,104 | 250% | 105,259 | 12,631 |
| Other exposures with excess of large exposures limits | 192,312 | 800% | 1,538,494 | 184,619 |
| Premises occupied by the bank* | 17,812 | 100% | 17,812 | 2,137 |
| All other holdings of real estate* | 833,781 | 200% | 1,667,562 | 200,107 |
| Investment in listed real estate companies | 103 | 300% | 309 | 37 |
| Investment in unlisted real estate companies* | 656,314 | 400% | 2,625,253 | 315,031 |
| **Total** | **1,988,658** | | **6,309,542** | **757,145** |

**Includes amounts of risk weighted assets arising from full consolidation of KHCB.*





## 8 MARKET RISK

### 8.1 Introduction

Market risk is the risk that changes in market prices, such as foreign exchange rates, profit rates, equity prices, and commodity prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk. As a matter of general policy, the Bank does not assume trading positions on its assets and liabilities, and hence the entire balance sheet is a non-trading portfolio (banking book). The Bank has adopted a standardized approach for measurement of market risk under the CBB capital adequacy framework. The CBB's standardized approach capital computation framework requires risk weighted assets to be computed for price risk, equities position risk, Sukuk risk, foreign exchange risk and commodities risk. Hence, from a capital computation perspective the Bank's market risk measurement is limited to foreign exchange risk in the banking book. The Bank is also exposed to profit rate risk on the banking book which is managed separately.

### 8.2 Foreign exchange risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. All foreign exchange (FX) risk within the Bank is transferred to Treasury. The Bank seeks to manage currency risk by continually monitoring exchange rates. The Board of Directors approves policies and strategies related to the management of FX risk. The Executive Management Committee ('MANCOM') supports the Board in managing FX risk by recommending policies, setting limits and guidelines and monitoring the FX risk of the Bank on a regular basis. The MANCOM provides guidance for day to day management of FX risk and also approves hedging programs. The management of the day-to-day FX position of the Bank is the responsibility of the Treasury. The department shall ensure adequate FX liquidity to meet the maturing obligations and growth in assets while ensuring that all limits and guidelines set by the Board and MANCOM are complied with; and shall implement hedging and other approved strategies for managing the risk. The Risk Management Department on an ongoing basis reviews the limits set and ensure that the concerned department(s) is complying with all limits set as per this policy. The Group had significant net exposures denominated in various foreign currency as of 31 December from various financial instruments and structural foreign currency exposure arising from unhedged equity investments in its foreign subsidiaries (refer to Note 38(c) in the Financials section).

The management of foreign exchange risk against net exposure limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various foreign exchange scenarios. Standard scenarios that are considered include a 5% plus / minus increase in exchange rates, other than GCC pegged currencies. An analysis of the Bank's net foreign exchange position and its sensitivity to an increase or decrease in foreign exchange rates (assuming all other variables, primarily profit rates, remain constant) has been presented in Note 38 to the consolidated financial statements.

### 8.3 Capital requirements for market risk

To assess its capital adequacy requirements for market risk in accordance with the CBB capital adequacy module for Islamic Banks, the Bank adopts the standardised approach. Foreign exchange risk charge is computed based on 8% of overall net open foreign currency position of the Group.

US$ 000's

| Self Financed | 31st December 2018 | Maximum During the Year | Minimum During the Year |
|---|---|---|---|
| Foreign exchange risk - [A] | 3,317 | 4,297 | 3,317 |
| Risk weighted assets – [B] = (A*12.5) | 41,463 | 53,713 | 41,463 |
| Capital requirement – (B*12.5%) | 5,183 | 6,714 | 5,183 |

## 9 OPERATIONAL RISK

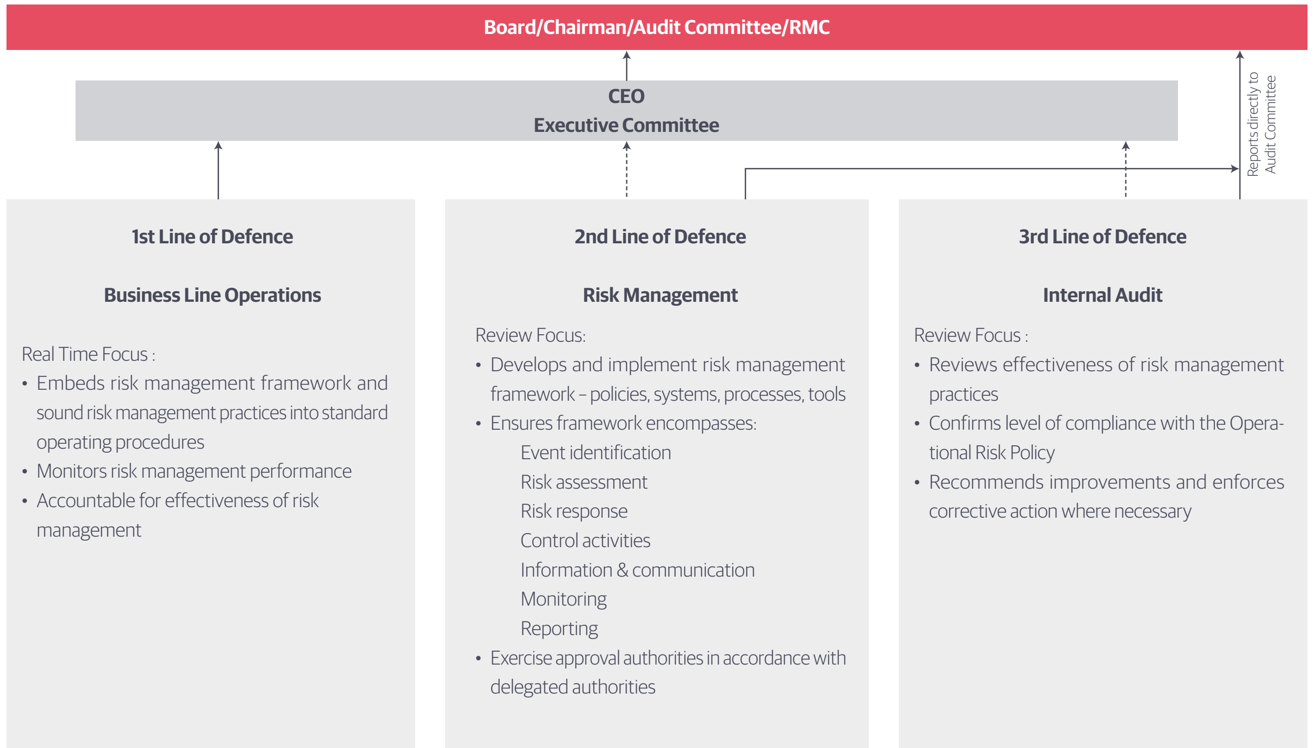
### 9.1 Introduction
Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is an inherent part of normal business operations. The Bank has adopted the Basic Indicator Approach for measurement of operational risk under the Basel II and CBB capital computation framework.

### 9.2 Operational risk management
Whilst operational risk cannot be eliminated entirely, the Bank endeavours to minimize it by ensuring that a strong control infrastructure is in place throughout the organization. Various procedures and processes used to manage operational risk include effective staff training, appropriate controls to safeguard assets and records, regular reconciliation of accounts and transactions, close monitoring of risk limits, segregation of duties, and financial management and reporting. The Risk Management Department manages the framework and facilitates the process of operational risk management.

The Bank has an operational risk management framework manual which includes components such as Key Risk Indicators (KRIs), operational loss data and Risk & Control Self Assessment (RCSA) across the Bank.

The Bank has completed the process of conducting RCSA of operational risk in all departments of the Bank to identify the important KRIs and key risk triggers. The Bank has completed reviewing the risk registers of its key departments to reflect the operational risk profile of the Bank.

To ensure effective governance across all processes and functions, GFH has adopted a 'Three Lines of Defense' approach, as illustrated below. The structure clearly reflects the requisite independence between the three functions.




The rationale behind the 3 Lines of Defense sees that the CEO is ultimately accountable for all 3 Lines of Defense. In addition:
- The Business Unit heads are ultimately accountable for the 1st Line of Defense in their business areas;
- The Risk Management function is ultimately accountable for the 2nd Line of Defense for the Bank; and
- The Internal Audit is ultimately accountable for the 3rd Line of Defense for the Bank.





The Bank's definition of operational risk also incorporates legal and Sharia compliance risk. This is defined as an operational risk facing Islamic banks which can lead to, loss of reputation, non-recognition of income and loss of revenue. This definition excludes strategic, liquidity, credit, market and reputational risks. However, operational risk that has a direct impact upon reputation (and by default a subsequent impact on profit and / or performance) is formally considered and reported upon. Whilst operational risk excludes losses attributable to traditional banking risk (credit, market and liquidity), the Bank recognises that operational risk is attached to the management of those traditional risks. For example operational risk includes legal and compliance related risks attached to the management of credit and market risk. Operational risks are attached to the management of business as usual as well as to changes such as the introduction of new products, projects or program activities.

### 9.3 Legal compliance and litigation
The Bank has an in-house legal counsel who is consulted on all major activities conducted by the Bank. All contracts, documents, etc have to be reviewed by the legal department as well. For information on contingencies, refer note 37 to the consolidated financial statements.

### 9.4 Sharia compliance
The Sharia Supervisory Board (SSB) is entrusted with the duty of directing, reviewing and supervising the activities of the Bank in order to ensure that they are in compliance with the rules and principles of Islamic Sharia. The Bank also has a dedicated internal Sharia reviewer, who performs an ongoing review of the compliance with the fatwas and rulings of the SSB on products and processes and also reviews compliance with the requirements of the Sharia standards prescribed by AAOIFI. The SSB reviews and approves all products and services before launching and offering to the customers and also conducts periodic reviews of the transactions of the Bank. An annual audit report is issued by the SSB confirming the Bank's compliance with Sharia rules and principles.

### 9.5 Capital requirements for operational risk
The Bank adopts the Basic Indicator Approach to evaluate operational risk charge in accordance with the approach agreed with the CBB. The Bank's average gross income for the last three financial years is multiplied by a fixed coefficient alpha of 15% set by CBB and a multiple of 12.5x is used to arrive at the risk weighted exposure that are subject to capital charge of 12.5%.

US$ '000s

| | Average gross income | Risk weighted exposure | Capital charge at 12.5% |
|---|---|---|---|
| Operational risk | 209,445 | 392,710 | 49,089 |

## 10. OTHER TYPES OF RISK

### 10.1 Introduction
Apart from the risks listed in the previous sections, the Bank is also exposed to other types of risks which it identifies and manages as part of its risk management framework. Although these risks do not directly form part of the Tier 1 risks, they are identified and captured by the ICAAP.

### 10.2 Liquidity risk
Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations on account of a maturity mismatch between assets and liabilities. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Though the liquidity position of the Bank has significantly improved, focus has continued to be to further enhance the liquidity by way of looking to raise additional capital in the form of debt or equity.

The Bank has a liquidity risk policy in place, which describes the roles and responsibilities of various committees, Treasury and other concerned departments in management of liquidity. It also stipulates various liquidity ratios to be maintained by the Bank, as well as gap limits for time bucket of the maturity ladder.

The liquidity position is closely monitored and stressed on a quarterly basis to cover both normal and more severe market conditions. All liquidity policies are subject to review and approval by the Board of Directors. Daily reports cover the liquidity position of the Bank. Moreover, periodic reports are submitted to the Board of Directors on the liquidity position. For maturity profile of assets and liabilities refer Note 33 of the consolidated financial statements.

The following are the key liquidity ratios which reflect the liquidity position of the Group:

| Liquidity Ratios | 31st December 2018 | Maximum | Minimum |
|---|---|---|---|
| Liquid assets : Total assets | 14.29% | 14.29% | 5.87% |
| Liquid assets : Total deposits | 22.95% | 22.95% | 12.14% |
| Short-term assets : Short-term liabilities | 74.56% | 74.56% | 57.02% |
| Illiquid assets : Total assets | 86.77% | 93.94% | 86.77% |

### 10.3 Management of profit rate risk in the banking book

Profit rate risk is the potential impact of the mismatch between the reset of rate of return on assets and the rate of return of the sources of funding. Majority of the Bank's profit based asset are short term and liabilities are short and medium term in nature, except for certain long term liabilities which have been utilised to fund the Bank's strategic investments in its associates.

The Board is responsible for the overall management of the profit rate risk. The MANCOM helps the Board in determining the borrowing and funding strategy of the Bank in order to optimize risk return trade off. It supports the Board in managing profit rate risk by recommending policies, setting limits and guidelines and monitoring the risk on a regular basis.

The objective of profit rate risk measurement is to maintain the Bank's profit rate risk exposure within self-imposed parameters over a range of possible changes in profit rates. The process of establishing profit rate risk limits and describing the risk taking guidelines provides the means for achieving the objective. Such a process defines the boundaries for the level of profit rate risk for the Bank and, where appropriate, also provides the capability to allocate limits to individual portfolios, activities, or business units. The limit structure also ensures that positions that exceed certain predetermined levels receive prompt management attention.

The limit system enables management to control profit rate risk exposures, initiate discussion about opportunities and risks, and monitor actual risk taking against predetermined risk tolerance.

The management of profit rate risk against profit rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various standard and non-standard profit rate scenarios.

Standard scenarios that are considered include a 100 basis points (bps) parallel fall or rise in yield curves. For details of the Bank's profit rate gap position as at 31 December 2018 and analysis of the Bank's sensitivity to an increase or decrease in market profit rates, refer Note 38(c) of the consolidated financial statements. An analysis of the Group's sensitivity to an increase or decrease in market profit rates for a 200 bps parallel increase / (decrease) is as below:

| 200 bps Parallel Increase/(Decrease) | US$ 000's |
|---|---|
| At 31st December | ± 18,034 |
| Average for the Year | ±8,680 |
| Maximum for the Year | ± 22,990 |
| Minimum for the Year | ± 15,950 |

### 10.4 Concentration risk

This risk arises from exposure to a common set of factors that can produce losses large enough to threaten the Bank's health or ability to maintain its core business. Concentration risk can arise from exposure to specific classes of assets, sector, country, revenue streams, counterparty, a group of counterparties, etc. Concentration risk is mitigated by limits, diversification by assets, geography counterparty quality etc. The industry sector and geographical concentration of credit exposures has been disclosed in Notes 34(a) and 32 (b) of the consolidated financial statements respectively.





### 10.5 Counterparty credit risk

Counterparty credit risk is the risk that a counterparty to a contract in the profit rate, foreign exchange, equity and credit markets defaults prior to maturity of the contract. In addition to the identified credit risk exposures the Bank's counterparty credit risk from markets as such is limited to the fair value of contracts of foreign exchange risk management instruments the overall exposure to which is usually not significant. For other credit market transactions (primarily inter-bank placements), the Bank has established a limit structure based on the credit quality (assessed based on external rating) of each counter party bank to avoid concentration of risks for counterparty, sector and geography. The Bank is constantly reviewing and monitoring the position to ensure proper adherence to the limits and defined policies of the Bank. As at 31 December 2018, the Bank did not have any open positions on foreign exchange contracts.

### 10.6 Reputational risk (non-performance risk)

Reputation risk is the risk that negative perception regarding the Bank's business practices or internal controls, whether true or not, will cause a decline in the Bank's investor base, lead to costly litigation that could have an adverse impact on liquidity or capital of the Bank. Being an Islamic Investment Bank, reputation is an important asset and among the issues that could affect the Bank's reputation is the inability to exit from investments, lower than expected returns on investments and poor communication to investors. A well developed and coherently implemented communication strategy helps the Bank to mitigate reputational risks. Additionally, the RMD has put together an Internal Capital Adequacy Assessment Process (ICAAP) Policy to effectively assess and measure all non-Pillar 1 risks.

### 10.7 Displaced commercial risk

Displaced Commercial Risk (DCR) refers to the market pressure to pay returns that exceeds the rate that has been earned on the assets financed by the liabilities, when the return on assets is under performing as compared with competitor's rates. The Bank's DCR primarily arises from the funds accepted in the form of Investment Account Holders (IAH) which is currently not very significant in terms of its size and in comparison to the overall activities of the Bank. The returns to investors on the funds are based on returns earned from short-term placements and hence the Bank is not exposed to a significant repricing risk or maturity mismatch risk in relation to these accounts. In relation to the DCR that may arise from its investment banking and restricted investment account products, the risk is considered limited as the Bank does not have any obligation to provide fixed or determinable returns to its investors. The Bank constantly monitors all potential risks that may arise from all such activities as part of its reputational risk management.

### 10.8 Other risks

Other risks include strategic, fiduciary risks, regulation risks etc. which are inherent in all business activities and are not easily measurable or quantifiable. However, the Bank has policies and procedure to mitigate and monitor these risks. The Bank's Board is overall responsible for approving and reviewing the risk strategies and significant amendments to the risk policies. The Bank senior management is responsible for implementing the risk strategy approved by the Board to identify, measure, monitor and control the risks faced by the Bank. The Bank as a matter of policy regularly reviews and monitors financial and marketing strategies, business performance, new legal and regulatory developments and its potential impact on the Bank's business activities and practices.

## 11 PRODUCT DISCLOSURES

### 11.1 Product descriptions and consumer awareness

The Bank offers a comprehensive mix of Sharia compliant investment banking products primarily to high net worth and sophisticated investors. This includes a range of innovative structured investment products like funds, repackaged products and structured restricted investment accounts. The investment department of the Bank has expertise in creating innovative high end and value added products offering a wide range of structures, expected returns, tenors and risk profiles.

Proposal for any new product is initiated by individual business lines within the Bank. The Management Committee of the Bank reviews such proposal to ensure that the new product/ business is in line with the Bank's business and risk strategy. All new products will need the approval of the respective authorities as per the Delegated Authority Limits (DAL) as well as the Board of Directors and the Sharia Supervisory Board of the Bank.

### 11.2 Customer complaints

GFH is dedicated to providing a high standard of service and to maintaining its reputation for honesty and integrity in all its dealings. The Bank takes all disputes and complaints from its customers and business partners very seriously. The Bank has a comprehensive policy on handling of external complaints, approved by the Board. All employees of the Bank are aware of and abide by this policy. The complaint handling process is disclosed in the Bank's website and also in all printed prospecting materials. Complaints are normally investigated by persons not directly related to the subject matter of the complaint.

### 11.3 Equity of Investment Account Holders (EIAH)

The Bank does not have significant amount under EIAH and does not use EIAH as a main source of its funding. The Bank does not, as a focused product proposition, offer EIAH products to its clients. The current EIAH deposits have been accepted on a case-by-case basis considering the Bank's relationship with its customers.

The EIAH holder authorises the Bank to invest the funds in any investments approved by the Bank's Sharia Board without any preconditions. All EIAH accounts are on profit sharing basis, but the Bank does not guarantee any particular level of return. In accordance with the principles of Sharia, the entire investment risk is on the investor. Any loss arising from the investment will be borne by the customer except in the case of the Bank's negligence. The Bank charges a Mudarib fee as its share of profit. Early withdrawal is at the discretion of the Bank and is subject to the customer giving reasonable notice for such withdrawal and agreeing to forfeit a share of the profit earned on such account.

Currently, the Bank commingles the EIAH funds with its funds for investments only into interbank placements and hence is not subject to any significant profit re-pricing or maturity mismatch risks. The Bank has an element of displaced commercial risk on EIAH which is mitigated by setting up and maintaining an appropriate level of Profit Equalisation Reserve (PER) and Investment Risk Reserve (IRR) to smoothen return to EIAH holders. Profit Equalisation Reserve (PER) is created by allocations from gross income of the Mudarabah before adjusting the Mudarib (Bank) share. Investment Risk Reserves (IRR) comprises amounts appropriated out of the income of investment account holders after deduction of the Mudarib share of income.

Administrative expenses incurred for management of the funds are borne directly by the Bank and are not charged separately to investment accounts. All terms of the EIAH are agreed upfront with the customers and form part of the agreement with the customer. Till date, the Bank has not made any withdrawals on PER or IRR. Any movements on these accounts are therefore only on account of additional reserves added.

For the qualitative disclosures pertaining to EIAH of KHCB, please refer the annual report of KHCB.

The quantitative disclosures below are pertaining to the EIAH from the Bank.

The details of Bank's income distribution to IAH holders for the last five years are given below:

US$ '000's

| As at 31 December | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Allocated income to IAH | 10 | 11 | 12 | 16 | 16 |
| Distributed profit | 10 | 10 | 11 | 15 | 12 |
| Mudarib fees* | 0.5 | 0.5 | - | - | - |
| Average rate of return earned | 1.10% | 0.88% | 0.89% | 0.89% | 0.22% |
| IAH[1] | 924 | 1,149 | 1,280 | 1,656 | 1,657 |
| Profit Equalisation Reserve (PER) | 9 | 9 | 8 | 8 | 7 |
| Investment Risk Reserve (IRR) | 5 | 5 | 5 | 5 | 5 |
| Profit Equalisation Reserve-to-IAH (%) | - | - | - | - | - |
| Investment Risk Reserve-to-IAH (%) | - | - | - | - | - |

*[1] Represents average balance*

** Includes contribution towards deposit protection scheme*





### 11.4 Restricted investment accounts

The Bank offers Restricted Investment Accounts ("RIAs") to both financial institutions and high net worth individuals in the GCC. All RIA product offering documents ("Offering Document") are drafted and issued with input from the Bank's Investment Banking, Sharia, Financial Control, Legal and Risk Management Departments to ensure that the Investors have sufficient information to make an informed decision after considering all relevant risk factors. The Bank has guidelines for the development, management and risk mitigation of its' RIA investments and for establishment of sound management and internal control systems to ensure that the interests of the investment account holders are protected at all times. Wherever it is necessary for the Bank establishes Special Purpose Vehicles (SPVs) for management of the investment. The Bank has a Board approved SPV Governance framework in place to equip the Board in ensuring that the management of such SPVs are conducted in a professional and transparent manner.

The Bank is aware of its fiduciary responsibilities in management of the RIA investments and has clear policies on discharge of these responsibilities. The Bank considers the following in discharge of its fiduciary responsibilities:

- Ensuring that the investment structure, Offering Documents and the investment itself are fully compliant with Islamic Sharia principles and the CBB regulations;
- Appropriately highlighting to the Investors, as part of the RIA Offering Document, of all the relevant and known risk factors and making it clear that the investment risk is to be borne by the Investor before accepting the investment funds;
- Completing all necessary legal and financial due diligence on investments undertaken on behalf of the Investors with the same level of rigour as the Bank requires for its' own investments;
- Ensuring that the funds are invested strictly in accordance with the provisions outlined in the Offering Documents;
- Preparing and disseminating periodical investment updates to Investors on a regular basis during the tenor of the investment;
- Distributing the capital and profits to the Investor in accordance with the terms of the offering document; and;
- In all matters related to the RIA, RIA SPV(s) and the investment, act with the same level of care, good faith and diligence as the Bank would apply in managing its own investments.

Within the Bank, the abovementioned responsibilities and functions are provided, managed and monitored by qualified and experienced professionals from the Investment Banking, Sharia, Financial Control, Legal, Investment Administration and the Risk Management Departments with Internal Audit oversight.

The restricted investment accounts primarily represent the investments in the projects promoted by the Bank and managed on a portfolio basis on behalf of investors.

There were no annual distributions made in RIA for the past five years.

For the qualitative disclosures pertaining to RIA's of KHCB, please refer the annual report of KHCB.

Invested with Insight

gfh.com